APPENDIX A

THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION

Table of Contents

Appendix A

THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION

Introduction to Appendix A

Appendix A is the part of the Remarketing Memorandum that provides investors with information concerning the City of San José (the "City"). Investors are advised to read the entire Remarketing Memorandum, including Appendix A, to obtain information essential to making an informed investment decision.

When used in this Appendix A and in any continuing disclosure made by the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," and "intend," and similar expressions identify "forward looking statements." Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is also subject to such risks and uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Appendix A speaks only as of its date, and the information and expressions of opinion contained in this Remarketing Memorandum are subject to change without notice.

Appendix A summarizes portions of the City's Basic Financial Statements for the Fiscal Year Ended June 30, 2009 (included in this Remarketing Memorandum as Appendix B), the City's Comprehensive Annual Debt Report for the Fiscal Year Ended June 30, 2009, the City's Adopted Budgets for Fiscal Year ("FY") 2009-10, the City's Adopted Budgets for FY 2010-11, as well as the most recent Actuarial Valuation Reports for the City's Federated City Employees Retirement Plan and the City's Police and Fire Department Retirement Plan. Investors can obtain copies of the Debt Report, the budget and retirement plan documents by writing to the following addresses:

Comprehensive Annual Debt Report	City Budget
Debt Management City of San José - Finance 200 East Santa Clara Street San José, CA 95113-1905	City Manager's Budget Office City of San José 200 East Santa Clara Street San José, CA 95113-1905
Federated City Employees' Retirement System	**Police and Fire Department Retirement Plan**
Board of Administration Federated City Employees' Retirement System 1737 North First Street, Suite 580 San José, CA 95112	Board of Administration Police and Fire Department Retirement Plan 1737 North First Street, Suite 580 San José, CA 95112

The City maintains a website. However, the information presented on the website is not a part of this Appendix A and should not be relied upon in making an investment decision.

General Description

The City is the tenth largest city in the United States and the third largest city in California (the "State"), with a January 1, 2010 population estimated at 1,023,083, according to the California Department of Finance. The territory of the City encompasses approximately 178 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the "County").

Having originated as a Spanish pueblo established in 1777, the City is the oldest city in the State. From a former rich agricultural setting, San José has become the capital of the innovative, high-technology based Silicon Valley - so named for the principal material used in producing semiconductors. During the 1980s and 1990s the City experienced an expansion in manufacturing, service, retail and tourism industries. With the dot-com collapse in the last recession in the early 2000s, Silicon Valley was one of the first and most deeply impacted regions in the nation. This has not been the case in this recession. Until the last quarter of 2008, Silicon Valley was somewhat less impacted than other areas in the state of California and the nation. However, the deep global recession has now enveloped this region as well, as evidenced by increasing job losses, rising unemployment, steep declines in home prices, rising foreclosures, and rising commercial vacancy rates. For additional information regarding the recent economic environment, see "Demographic and Economic Information – *Economic Overview*."

Demographic and Economic Information

Introduction

The information provided in the section entitled "Demographic and Economic Information" has been collected from sources that the City believes to be reliable and is the most current information available from those sources. Because it is difficult to obtain complete and timely regional economic and demographic information, the City's economic condition may not be fully apparent in all of the publicly available regional economic statistics provided herein, but the City has included this information to provide context about the City's finances. For current estimates regarding the City's General Fund revenue sources, see "Budget – *City's FY 2010 -11 Adopted Budget*" and "Major General Fund Sources of Revenue."

Economic Overview

As stated earlier, the City has experienced a significant economic downturn since the fourth quarter of 2008. This is evidenced in several key economic indicators such as unemployment rates, residential foreclosure rates, office vacancy rates, and median home prices.

The unemployment rates at the local, State, and national levels have all gone up significantly in recent months to some of the highest rates in decades. The unemployment rate in the City remains high at a rate of 12.4% as of August 2010, which is just slightly higher than the rate of 12.2% recorded in 2009.

Real estate performance in Santa Clara County also remains extremely weak with a significant increase in the number of foreclosures. In the last quarter (October to December) of 2009, 3,028 San José homes received a new foreclosure filing, which is approximately 1.7% of the home ownership units in the City. While this is relatively flat compared with the last quarter of 2008, the full 2009 calendar year saw a 20% increase in foreclosure filings over calendar year 2008, rising from 13,800 filings (7.4% of the home ownership units in the City) in 2008 to 16,600 filings (8.9% of the home ownership units in the City) in

2009. The vacancy rates for office space in San José also increased from 19.12% in the fourth quarter of 2008 to 24.21% in the fourth quarter of 2009.

After the significant decline in housing prices in 2008 and 2009, the residential market and the overall economy have shown some signs of stabilization. The median home sales price for single family homes within the City, for example, increased 7.0% from $500,000 in July 2009 to $534.944 in July 2010. This increase was primarily driven by the federal first-time homebuyer tax credit which expired on September 30, 2010. Given the high unemployment rate, increase in foreclosures, and expiration of the homebuyer tax credit program, long-term stabilization in both the housing market and the US economy is still uncertain at this point, with many experts suggesting the possibility of a "double dip" back into a recession.

Population

City residents account for over half of the population of the County, which is the most populous of the San Francisco Bay Area counties. While the period from 1960 to 1980 was characterized by extremely rapid population growth in both the City and County, the last two decades reflect a trend of slower but steady growth. Table 1 shows the population of the City, the County and the State according to the U.S. Census for the years 1960, 1970, 1980, 1990 and 2000 and according to the California Department of Finance for the years 2001 through 2010.

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of San José	Annual % Change	County of Santa Clara	Annual % Change	State of California	Annual % Change
1960................	204,196		642,315		15,717,204	
1970................	459,913	125.23%	1,064,714	65.76%	19,953,134	26.95%
1980................	629,442	36.86	1,295,071	21.64	23,667,902	18.62
1990................	782,248	24.28	1,497,577	15.64	29,760,021	25.74
2000................	895,131	14.43	1,682,585	12.35	33,873,086	13.82
2001................	905,528	1.16	1,701,362	1.12	34,430,970	1.65
2002................	915,699	1.12	1,715,295	0.82	35,063,959	1.84
2003................	922,905	0.79	1,726,081	0.63	35,652,700	1.68
2004................	929,852	0.75	1,738,435	0.72	36,199,342	1.53
2005................	941,435	1.25	1,752,696	0.82	36,676,931	1.32
2006................	952,897	1.22	1,771,291	1.06	37,087,005	1.12
2007................	967,964	1.58	1,797,623	1.49	37,463,609	1.02
2008................	985,047	1.76	1,829,977	1.80	37,871,509	1.09
2009................	1,006,846	2.21	1,857,516	1.50	38,255,508	1.01
2010................	1,023,083	1.61	1,880,876	1.26	38,648,090	1.03

Source: U.S. Census (1960-2000), California Department of Finance (2001-2010).

Employment

Table 2 sets forth employment figures for the City and the County and unemployment rates for the City, the County, the State and the United States for the five most recent years. The City's unemployment rate has risen since 2007 as a result of the economic downturn across the United States. The City's unemployment rate has increased from 5.0% in 2006 to 12.4% as of August 2010.

Table 2
SANTA CLARA COUNTY
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE

Civilian Labor Force *(in thousands)*	**2006**	**2007**	**2008**	**2009**	**2010[1]**
City of San José					
Employed	414	419	429	406	408
Unemployed	22	22	31	56	58
Total[2]	436	441	460	462	466
County of Santa Clara					
Employed	797	807	827	781	786
Unemployed	37	40	53	96	98
Total[2]	834	855	880	878	884
Unemployment Rates					
City	5.0%	5.3%	6.7%	12.2%	12.4%
County	4.5	4.7	6.0	11.0	11.1
State	4.9	5.4	7.2	11.4	12.4
United States	4.6	4.6	5.8	9.3	9.5

(1) Preliminary, not seasonally adjusted; data are for August 2010.
(2) Totals may not add due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division.

The City is the geographic center of Silicon Valley. The high-technology industry component of the City's economy is diversified in research, development, manufacturing, marketing and management. Development of high technology has been supported by the area's proximity to Stanford University, San José State University, Santa Clara University and other institutions of higher education, and such research and development facilities as SRI International (formerly the Stanford Research Institute), the Stanford Linear Accelerator Center (SLAC) and NASA Ames Research Center.

While the County is known worldwide as "Silicon Valley," the silicon-based semiconductor industry is only a part of the industrial picture. Other industries include information systems, solar, computers, peripherals, instruments, software and a wide array of communication electronics.

Table 3 displays the composition of employment in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area by general category for the most recent three years available.

Table 3
SAN JOSE-SUNNYVALE-SANTA CLARA METROPOLITAN STATISTICAL AREA
EMPLOYMENT BY CATEGORY
ANNUAL AVERAGES

	2007	Percent of Total	2008	Percent of Total	2009	Percent of Total
Farm	6,700	0.73%	6,100	0.66%	5,700	0.66%
Natural Resources & Mining	300	0.03	300	0.03	200	0.02
Construction	47,200	5.14	44,200	4.80	33,900	3.94
Manufacturing	166,700	18.16	168,000	18.24	155,700	18.08
Wholesale Trade	39,800	4.34	40,600	4.41	35,600	4.13
Retail Trade	86,400	9.41	84,600	9.18	78,900	9.16
Transport Warehousing, Utilities	13,500	1.47	13,300	1.44	12,000	1.39
Information	39,600	4.31	41,700	4.53	41,100	4.77
Financial Activities	37,200	4.05	34,800	3.78	31,700	3.68
Professional & Business Services	178,300	19.42	178,700	19.40	161,900	18.79
Educational & Health Services	103,200	11.24	107,500	11.67	108,100	12.55
Leisure & Hospitality	76,800	8.37	78,200	8.49	74,300	8.63
Other Services	25,100	2.73	25,300	2.75	24,300	2.82
Government	97,200	10.59	97,800	10.62	98,000	11.38
Total(1)	**918,000**		**921,100**		**861,400**	

(1) Totals may not add due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division.

Major Employers

Table 4 shows fifteen selected major employers in San José, ranked by the number of their employees, estimated as of June 2010. Because there is no official source for this information, it has been gathered by the City's Office of Economic Development on an informal basis and the City can provide no assurances as to the accuracy of the information.

Table 4
SELECTED MAJOR SAN JOSE EMPLOYERS
As of June 2010

	Company/Organization	Type of Industry	Approximate Number of Employees
1.	Santa Clara County	Government	15,380
2.	Cisco Systems	Computer Equipment	11,600
3.	IBM Corporation	Computer Equipment	7,460
4.	City of San José	Government	5,910[1]
5.	eBay/Paypal	On-Line Auction	3,000
6.	San José Unified School District	Education	2,900
7.	San José State University	Education	2,600
8.	Xilinx	Semiconductor	2,340
9.	Sanmina-SCI	Semiconductor Equipment	2,170
10.	Kaiser Permanente	Health Care	2,120
11.	Adobe Systems Inc.	Computer Software	2,000
12.	Hitachi	Storage Software	2,000
13.	Good Samaritan Health System	Health Care	1,850
14.	Cadence Design Systems Inc.	Computer Software	1,800
15.	KLA-Tencor Corporation	Semiconductor Equipment	1,770

(1) Reflects the City's full-time equivalent authorized positions included in the 2010-2011 Adopted Budget, including budget actions subsequent to June 2010.

Source: City of San José, Office of Economic Development.

Household Income

Household Income includes the income of the householder and all other people 15 years and older in the household, whether or not they are related to the householder. The median is based on the income distribution of all households, including those with no income. Table 5 shows the top ten median household incomes by metropolitan statistical area in the United States in 2008, among which the City ranked first.

Table 5
2008 TOP TEN MEDIAN HOUSEHOLD INCOME
FOR STATISTICAL AREAS WITH AT LEAST 65,000 PEOPLE

1. San José-Sunnyvale-Santa Clara, CA Metro Area	**$88,098**
2. Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	85,824
3. Bridgeport-Stamford-Norwalk, CT Metro Area	84,545
4. Lexington Park, MD Metro Area	80,624
5. Oxnard-Thousand Oaks-Ventura, CA Metro Area	76,860
6. San Francisco-Oakland-Fremont, CA Metro Area	76,848
7. Anchorage, AK Metro Area	75,035
8. Trenton-Ewing, NJ Metro Area	73,800
9. Boston-Cambridge-Quincy, MA-NH Metro Area	71,361
10. Honolulu HI Metro Area	70,951
U.S. Median	$52,029

Source: U.S. Census Bureau, 2008 American Community Survey.

Retail Sales

Table 6 sets forth a history of taxable sales for the City from calendar year 2004 through 2008 by the California State Board of Equalization. A comparison of the total taxable sales in the City between the second quarter of calendar year 2008 and the second quarter of calendar year 2009 (the most recent official data available from the State Board of Equalization), shows a decrease of $730 million, or 22%. The City Manager's Budget Office received sales tax data through the third quarter of FY 2009-10. Sales tax revenue is expected to decline 3.5% in FY 2009-10, despite a third-quarter year-over-year increase in collections. A growth of 2.0% is anticipated for FY 2010-11. For additional information regarding sales tax receipts, see "Major General Fund Revenue Sources – *Sales and Use Taxes*."

Table 6
CITY OF SAN JOSE
TAXABLE SALES
(in thousands)

	2004	2005	2006	2007	2008
Apparel Stores	$ 428,926	$ 476,095	$ 514,552	$ 537,902	$ 586,621
General Merchandise Stores	1,192,548	1,273,994	1,332,598	1,425,777	1,361,162
Food Stores	396,216	401,720	409,257	427,237	410,915
Eating and Drinking Establishments	977,463	1,046,629	1,128,192	1,206,390	1,230,360
Home Furnishings and Appliances	342,719	363,119	364,657	360,402	405,072
Building Materials and Farm Implements	833,766	853,656	875,354	781,551	699,786
Auto Dealers and Auto Supplies	1,553,456	1,573,954	1,584,002	1,548,373	1,137,915
Service Stations	872,202	1,021,176	1,128,236	1,245,967	1,398,999
Other Retail Stores	1,349,032	1,417,102	1,576,089	1,700,093	1,306,125
Retail Stores Total	$ 7,946,328	$ 8,427,445	$ 8,912,937	$ 9,233,692	$ 8,536,956
All Other Outlets	3,190,904	3,279,248	3,357,103	3,542,272	3,860,721
Total All Outlets	$11,137,232	$11,706,693	$12,270,040	$12,775,964	$12,403,677

Source: California State Board of Equalization.

Construction Activity

A history of construction valuation and new dwelling units for the most recent five calendar years appears in Table 7 below. More information regarding building permits and fees is set forth below in the section entitled "Major General Fund Revenue Sources – *Licenses, Permits and Miscellaneous Taxes*."

Table 7
CITY OF SAN JOSE
CONSTRUCTION VALUATION AND NEW DWELLING UNITS
(in thousands)[(1)]

	2005	2006	2007	2008	2009
Valuation:[(1)]					
Residential	$ 512,469	$ 490,543	$ 348,893	$ 284,103	$ 94,673
Non-Residential..	404,289	409,256	682,705	541,640	289,136
Total	$ 916,758	$ 899,799	$ 1,031,598	$ 825,743	$ 383,809
New Dwelling Units:					
Single Family	831	611	462	254	75
Multi-Family	1,951	2,362	1,708	1,716	232
Total	2,782	2,973	2,170	1,970	307

(1) Valuation figures are adjusted to 2010 dollars per Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland.
Source: City of San José, Department of Planning, Building and Code Enforcement as of July 20, 2010.

Education

For the school year 2008-09, an estimated 276,230 students were enrolled in the County's 241 elementary schools; 59 middle schools and junior high schools; 50 high schools; 45 K-12, community, alternative, special education, continuation and juvenile hall schools and 33 charter schools. In addition, there are a number of private schools serving the residents of the County. The County has seven community colleges (within four community college districts: Foothill-DeAnza, Gavilan Joint, San José-Evergreen, and West Valley-Mission). Major universities in the County include Stanford University, Santa Clara University, and San José State University.

The City is served by 15 of the 33 public school districts in the County. These school districts cross municipal boundaries. Principal public school systems serving the City are the San José Unified School District (grades K-12), with an estimated enrollment for school year 2008-09 of 31,918, and the East Side Union High School District with an estimated enrollment for school year 2008-09 of 26,259.

Transportation

The San José area is served by a network of freeways providing regional, national and international access. Bayshore Freeway (Highway 101), a major north-south highway between San Francisco and Los Angeles, provides access to air passenger and cargo facilities at Norman Y. Mineta San José International Airport (the "Airport") and San Francisco International Airport. Interstate 880 connects San José with the Oakland International Airport and the Port of Oakland. Interstates 280 and 680 provide access to the peninsula and eastern regions of the San Francisco Bay Area, respectively, and State Route 17 serves to connect San José with the Pacific Coast at Santa Cruz. Additional freeways serving the local area are

State Routes 85, 87 and 237. During the past two decades, approximately $1.8 billion has been invested by the State and the County to expand and improve the area freeway system.

The Santa Clara Valley Transportation Authority (the "VTA") provides public transit service throughout Santa Clara County, servicing 326 square miles of urbanized area. Transit services are readily accessible to residents of the City, as most residences and businesses in the City are within a quarter mile of bus or light rail service. According to the VTA Comprehensive Annual Financial Report ("VTA CAFR") for fiscal year ended June 30, 2009, VTA's bus network is comprised of 75 bus routes, over 3,804 bus stops, 802 bus shelters, and 8 park-and-ride bus lots. VTA also partners with Altamont Commuter Express (ACE) and Caltrain to provide commuter rail service, with Santa Cruz Metro to provide regional bus service from Santa Cruz to Downtown San José, and with the Dumbarton Express for bus services between the East Bay to northern Santa Clara County work centers and communities. In addition, VTA offers light rail and ACE Train bus shuttles to various worksites and locations.

In the November 2000 election, the voters of the County approved a 30-year, one-half cent sales tax that commenced collection in 2006 upon the expiration of a previously approved one-half cent sales tax. This sales tax will finance various transit projects, including the Silicon Valley Rapid Transit Project (the "SVRT") which is proposed to extend the Bay Area Rapid Transit ("BART") system to the City. BART is a heavy rail rapid transit system currently serving Alameda, Contra Costa, and San Francisco Counties and the northern portions of San Mateo County.

In November 2008, California voters passed Proposition 1A providing $9 billion in initial funding for a statewide high-speed rail system. The proposed first phase of the line would stretch between San Francisco and Anaheim with stations in San José, Gilroy, Merced, Fresno, Bakersfield, and Los Angeles at an estimated cost of $33 billion. Also, in November 2008, Santa Clara County voters approved a one-eighth of one percent retail sales and use tax as proposed by the VTA to be used by BART to operate, maintain and improve the 16-mile BART extension from Fremont to the County of Santa Clara, with stations in Milpitas, San José, and Santa Clara, connecting with Caltrain from Gilroy to San Francisco, and establishing a People Mover to the Airport. Per the terms of the ballot measure, the tax will be collected only if sufficient State and federal funds are secured to match local construction dollars.

The Airport is located on approximately 1,050 acres of land approximately two miles north of Downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport is a commercial service and general aviation airport and is classified by the Federal Aviation Administration as a "medium hub" (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The City has invested approximately $1.3 billion in Airport's Terminal Area Improvement Program over the last four years.

During FY 2009-10, the Airport served approximately 4.1 million enplaned passengers and accommodated 131,590 operations (takeoffs and landings) compared with 4.4 million enplaned passengers and 159,972 operations during FY 2008-09. According to traffic statistics published by the Airports Council International-North America ("ACI-NA"), in calendar year 2009, the Airport was the 46th busiest airport in North America in terms of total passengers and the 63rd busiest in terms of total cargo.

In November 2005, the San José City Council approved a comprehensive plan to replace and upgrade the terminal facilities at the Airport. The Terminal Area Improvement Program (the "TAIP") is scheduled to be completed in two phases. The first phase of the TAIP ("Phase 1") includes, but is not limited to, a new Terminal B, upgrades for the existing Terminal A and improvements to the roadway system, and a new consolidated rental car and public parking garage. Some of the Phase 1 major milestones reached as of

June 2010 include the completion and opening of six levels of the consolidated rental car garage, the opening of the ticketing lobbies at the renovated Terminal A and the new Terminal B.

The second phase of the TAIP ("Phase 2") includes an expansion of Terminal B and construction of a new South Concourse facility, adding a total of 12 gates. Pursuant to the Airport's lease agreement with its tenant airlines, projects in Phase 2 of the TAIP have been pre-approved, but construction is contingent on meeting certain activity-based benchmarks. Specifically, the Airport must reach 217 scheduled flights on any one day, or must enplane or deplane at least 12.2 million passengers in any given fiscal year in order to begin Phase 2.

San José Municipal Government

The City is governed by the City Council, consisting of a Mayor and ten other council members. The Mayor is elected at large for a four-year term. Council members are elected by district for staggered four-year terms. The Mayor and the council members are limited to two consecutive four-year terms. The City is a charter city, which means the City, through its charter (the "Charter"), may regulate municipal affairs, subject only to restrictions and limitations provided in the Charter. In matters other than municipal affairs or in matters of statewide concern, the City is subject to State law.

The City Council appoints the City Manager who is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk, City Auditor and Independent Police Auditor. The officials heading these offices are appointed by the City Council and carry out the policies set forth by the City Council.

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under State law. These services are organized in five key lines of business - Community and Economic Development, Environmental and Utility Services, Neighborhood Services, Public Safety, Transportation and Aviation Services and Strategic Support. These cross-departmental service areas provide a forum for strategic planning and investment decisions within the context of the Mayor and City Council policy priorities. Plans, policies, and investment decisions are then carried out through departmental core and operational services.

The City Council also acts as the Board of Directors of the Redevelopment Agency of the City of San José (the "Agency"), which is a separate legal entity from the City, established by State law. The Executive Director of the Agency is appointed by and reports directly to the City Council, acting as the Agency Board. The Agency is a component unit of the City and its financial statements are combined into the City's Comprehensive Annual Financial Report. Transfers from the Agency have been a significant source of revenue to the City as discussed in more detail below. See "Major General Fund Revenues Sources – *Revenue from Local Agencies.*"

Budget

State Budget

Over the last decade, the State has experienced significant budget challenges. The State retains the power to divert revenues from property tax, sales and use taxes, gasoline tax, Motor Vehicle License Fees and other revenues payable to the City, and has used such power in recent years to address its budget deficits. Although the passage of Proposition 1A in November 2004 is expected to somewhat constrain the State's ability to divert City revenues in the future, an understanding of the State budget process remains important to understanding the City's financial condition. A brief discussion of the State budget process as well as selected ballot measures and recent budget acts enacted on or prior to FY 2004-05 that had a material impact on the City's finances follows. There were no material events related to the State budget between FY 2004-05 and FY 2009-10.

State Budget Process. The State's fiscal year begins on July 1 and ends on June 30. The State Constitution requires the Governor to submit a budget for each fiscal year to the Legislature by the immediately preceding January 10 (the "Governor's Budget").

Next, the Legislature considers the Governor's Budget. The Constitution requires the Legislature to pass a budget bill by June 15; however, the Legislature has regularly missed this date. As a result of the passage of Proposition 58, the Balanced Budget Amendment, in March 2004, beginning with FY 2004-05, the Legislature may not pass a budget bill in which State General Fund expenditures exceed estimated State General Fund revenues and fund balances.

Because more than half of the State's General Fund income is derived from the April 15 personal income tax, the Governor submits a "May Revised Budget" by May 14. The Legislature typically waits for the May Revised Budget before making final budget decisions. Once the Budget Bill has been approved by a two-thirds vote of each house of the Legislature, it is sent to the Governor for approval.

March 2004 Ballot Measures. In order to address a projected deficit of approximately $14 billion dollars in FY 2004-05, the State Legislature placed both Propositions 57 and 58 on the statewide ballot at the March 2, 2004 primary election. The voters passed both Propositions 57 and 58, as described below.

- The California Economic Recovery Bond Act ("Proposition 57"), which authorized the State to issue up to $15 billion of economic recovery bonds to finance the negative State General Fund reserve balance as of June 30, 2004 and other State General Fund obligations undertaken prior to June 30, 2004. Proposition 57 also called for local sales and use taxes to be redirected from local governments to the State, including 0.25% that would otherwise be available to the City, to pay debt service on the economic recovery bonds, and for an increase in local governments' share of local property tax by a like amount. It should be noted that the City continues to record this as sales and use tax revenue.

- The Balanced Budget Amendment ("Proposition 58"), which required the State to adopt and maintain a balanced budget and establish an additional reserve, and restricted future long-term deficit-related borrowing.

During FY 2003-04, the State sold a total of $10.9 billion of the economic recovery bonds, with an additional $3.2 billion sold in FY 2007-08. As of July 1, 2010, the State has $7.7 billion of economic recovery bonds outstanding. Revenue from the 0.25% sales and use taxes securing these bonds was diverted from local governments, including the City, to the State commencing July 1, 2004 but backfilled with an increased allocation of property tax. These revenues will continue to be diverted until the economic recovery bonds (and any additional bonds authorized by Proposition 57) are paid.

FY 2004-05 Budget Act. Governor Schwarzenegger signed the FY 2004-05 Budget Act on July 31, 2004. The major impact of the State Budget on City General Fund revenues for FY 2004-05 was an estimated reduction of $11.4 million comprised of $11.1 million of reduced Motor Vehicle License Fee property tax replacement revenues and $300,000 of lost interest earnings. This reduction, approximately 2.0% of the City's estimated General Fund revenues, was part of a larger structural reform strategy approved by voters in November 2004 as Proposition 1A, which limited these reductions to FY 2004-05 and FY 2005-06.

The FY 2004-05 Budget Act, related legislation and Proposition 1A implemented an understanding negotiated between Governor Schwarzenegger and local government officials concerning the State's control over local government revenues, commonly referred to as the State-Local Agreement ("State-Local Agreement"). These changes include:

- Motor Vehicle License Fee ("MVLF"). The MVLF rate was reduced from 2% to 0.65% of the market value of the vehicle. The State is required by statute to replace the reduction in MVLF revenues with a corresponding amount of property tax revenues. See "Major General Fund Revenues Sources – *Miscellaneous Revenues* – Revenue from the State" for a more complete discussion of Motor Vehicle License Fees.

- Sales and Use Taxes. The State cannot reduce the local sales and use tax rate or change the allocation of local sales and use tax revenues. This does not impact the redirection of sales and use tax revenues to repay the economic recovery bonds issued under Proposition 57. However, under Proposition 1A, once the economic recovery bonds are repaid, the redirection of the 0.25% portion of the local sales and use taxes from local governments to the State must end. See "Major General Fund Revenues Sources – *Sales and Use Taxes*."

- Property Taxes. The State is prohibited from shifting to schools or community colleges any share of property tax revenues allocated to local governments under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues from one local government recipient to another would require a two-thirds vote of both houses of the State Legislature. In addition, the State cannot reduce the property tax revenues diverted to cities and counties as replacement for the sales and use tax revenues redirected to the State to pay debt service on the bonds authorized by Proposition 57. See "Major General Fund Revenues Sources – *Property Taxes and Assessed Valuations*."

- State Borrowing of Property Tax Revenues. Beginning in FY 2008-09, the State has the ability to divert up to 8% of local property tax revenues for State purposes only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe funds, including any repayment for past property tax revenue diversions, to local agencies, and (v) such property tax revenue diversions do not occur in more than two fiscal years during any period of ten consecutive fiscal years.

- Re-allocation of Redevelopment Agency Revenues. In both FY 2004-05 and FY 2005-06, the State directed county auditors to shift the allocation of $250 million in property tax revenue from redevelopment agencies statewide to "educational revenue augmentation funds" ("ERAFs") to support schools. The impact to the Agency in FY 2004-05 was $18,626,954 and in FY 2005-06 was $14,500,614. These payments were made through the Agency's participation in the California Statewide Communities Development Authority (CSCDA) ERAF Loan Program. Although the primary source of repayment is the Agency tax increment or other revenues, if the Agency fails to make a scheduled payment on its ERAF Loan the County Auditor will be directed to transfer the first available ad valorem property tax revenues of the City to make the payment. Payments on the ERAF loan are due semi-annually each March 1 and November 1 in an amount sufficient to pay debt service on the next succeeding August 1 and February 1, respectively. The Agency's annual loan payment is approximately $4.5 million. The final loan payment will be due on March 1, 2016. The Agency has made its required payments to date. See "Major General

Fund Revenues Sources – *Revenue from Local Agencies*" for information about moneys transferred by the Agency to the City's General Fund.

FY 2009-10 Budget Act. The Governor signed the FY 2009-10 Budget Act on February 20, 2009 (the "FY 2009-10 State Budget"). Substantial amendments were made to the FY 2009-10 State Budget on July 28, 2009 to address a projected $24 billion deficit. These amendments include:

- Proposition 1A. The State borrowed 8%, or approximately $1.9 billion, of the amount of property tax revenue apportioned to cities, counties and special districts as permitted under Proposition 1A (2004). The State is required to repay this amount plus interest by June 30, 2013.The City's portion of the State borrowing was approximately $20.4 million; however, the City participated in the California Statewide Communities Development Authority (CSCDA) Proposition 1A Securitization Program that was established to mitigate the impact of the State borrowing on local governments. Under this program, the City received proceeds of the securitization in the same amounts and on the same schedule as the property taxes that the State borrowed and all costs associated with the program were borne by the State. See "Budget – *State Budget* – FY 2004-05 Budget Act."

- Supplemental ERAF. In July 2009 the State Legislature adopted, and the Governor of the State signed, Assembly Bill No. 26x4 (the "2009 SERAF Legislation"), which mandated that redevelopment agencies in the State make deposits to the Supplemental Educational Revenue Augmentation Fund ("SERAF") that is established in each county treasury throughout the State in the aggregate amount of $1.7 billion for FY 2009-10, which were due prior to May 10, 2010, and $350 million for FY 2010-11.

  The Agency was informed by the State Director of Finance that the total payable by it for FY 2009-10 was $62.2 million and the Agency has estimated that the total amount payable by it for FY 2010-11 will be $12.8 million; the actual payment amount for FY 2010-11 will be calculated by the State's Department of Finance by November 15, 2010. Pursuant to the 2009 SERAF Legislation, redevelopment agencies may use any funds that are legally available and not legally obligated for other uses, including reserve funds, proceeds of land sales, proceeds of bonds or other indebtedness, lease revenues, interest and other earned income. The 2009 SERAF Legislation also allows redevelopment agencies to borrow money from their low and moderate income housing funds to meet their SERAF obligation.

  The Agency met its $62.2 million payment for FY 2009-10 and expects to meet its $12.8 million FY 2010-11 SERAF obligations with funds borrowed from the Agency's Low and Moderate Income Housing Fund ($65 million) and from the City ($10 million). See "Major General Fund Revenues Sources – *Revenue from Local Agencies*" for a discussion of the consequences of the Agency's failure to repay the Low and Moderate Income Housing Fund.

City Budget

Over the last decade, the City has faced significant budgetary challenges. The City is legally required to have a balanced budget in place before the beginning of each fiscal year and has used a variety of strategies to balance its budget; however, a number of restrictions limit the City's ability to raise revenues. See "City's Financial Condition; Limitation on Sources of Revenues" for further information.

City Budget Process. In the third quarter of each fiscal year, the City Manager releases the "Five-Year Economic Forecast and Revenue Projections for the General Fund and Capital Improvement Program."

Since 1986, the City has used this five-year forecast to assist in projecting revenue levels and expenditures based on certain assumptions and expectations.

Pursuant to the City Charter, the Mayor releases an annual "budget message." This document describes the budget process, the current fiscal situation of the City, the strategy for developing the proposed budget, recommendations on specific budget items and other related issues. The City Council reviews the Mayor's budget message, and a public hearing is held to discuss the budget message prior to its adoption by the City Council.

The City Charter requires that the City Manager release the Proposed Capital Budget and Capital Improvement Program and the Proposed Operating Budget at least thirty days prior to the beginning of each fiscal year, or at such earlier time as the City Council may specify. As currently directed by the City Council, in early May, the City Manager releases the Proposed Operating and Capital Budgets and Proposed Fees and Charges Report. The Proposed Operating Budget contains the complete financial plan for the City for the next fiscal year. It describes, by core service, each department's activities and recommended additions or reductions to those activities. It accounts for all revenue received by the City and accounts for the usage of the revenue. The City Council holds a number of study sessions in mid-May to discuss the proposed operating and capital budgets and holds a series of public hearings on the budget in late May and early June.

In early June, the Mayor releases the final budget modification message. It contains changes to the Proposed Budget recommended by the Mayor after review and discussion of the document during the budget hearings. In mid-June, the City Council adopts the operating and capital budgets for the next fiscal year, along with the implementing appropriation ordinances and funding sources resolutions that appropriate the budgeted amounts to the respective departments.

Current City practice calls for the preparation of Bi-Monthly Financial Reports, which are presented to the City Council Public Safety, Finance, and Strategic Support Committee and subsequently reported to the entire City Council. Additionally, in February each year the City Council holds a study session on the mid-year status of the operating and capital budgets, and takes actions as necessary to maintain a balanced budget. At any public meeting, the City Council may amend or supplement the budget by affirmative vote of at least a majority of the total members of the City Council.

City's FY 2010-11 Budget. The City Council adopted the FY 2010-11 budget on June 17, 2010. This budget closed a projected $118.5 million General Fund deficit – the combined shortfall in the FY 2010-11 base operating budget of $116 million and development fee program services of $2.5 million. A combination of strategies was used to deal with the significant funding shortfall including: 1) service reductions and eliminations; 2) revenue increases, use of reserves, and funding shifts; and 3) costs savings and new service delivery models. The General Fund shortfall was closed by identifying $56.5 million in additional sources, including use of $15.5 million of reserves and FY 2010-11 Beginning Fund Balance to address one-time expenditures, and significantly decreasing expenditures by $62.0 million. Of these solutions, 83% are ongoing solutions and 17% are one-time solutions.

The revenue estimates for the 2010-2011 Adopted Budget were built on the assumption that the lingering effects of the economic recession will continue to impact the City's economic performance. Moderate growth in the global and national economies is expected to produce only modest growth in the local economy. Property Tax is expected to decline 1.2% in FY 2010-11 driven by the drop in the California Consumer Price Index (CCPI) and the anticipated drop in commercial property valuation. Sales Tax is expected to experience slight growth of 2.0% based on the assumption that the economy will begin a slow recovery and resume modest growth.

While collections for the City's largest General Fund revenue sources, most notably Property Tax and Sales Tax, are tied directly to economic conditions, there are a number of revenues that are primarily driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State and federal agencies are driven by the availability of grant and reimbursement funding, which does not necessarily track the economic cycle.

As part of the FY 2010-11 budget balancing strategies, the total employee count was reduced to a level roughly equivalent to the City's FY 1989-90 employee count. In the intervening years, the City population has grown to 1,023,083, representing an increase of approximately 30.8%. Since 2002 when the City's employee count peaked, the net reduction of City positions totals 1,625, which represents a decrease of approximately 21.8%. The 2010-2011 Adopted Budget includes a net reduction of 783 positions from the 2009-2010 Adopted Budget. Subsequent to the adoption of the FY 2010-11 budget, 70 police officer positions were restored (see "City's FY 2010-11 Budget – *Adjustments to the FY 2010-11 Adopted Budget*" and "Labor Relations" for more information).

During the budget process, the City Council called for all City employees to agree to reductions in total compensation of 10%, with at least 5% of those reductions ongoing. Agreements achieving this objective were negotiated with six of the City's eleven bargaining groups and were approved by the City Council in late June. The cost savings associated with the agreements were used to restore services that were recommended for elimination in the 2010-2011 Proposed Budget, primarily library and community center hours. If these agreements had not been reached, then an additional 107 City positions would have been eliminated as part of the 2010-2011 Adopted Budget. See "Labor Relations" for more information regarding the status of the City's agreements with bargaining/employee groups.

In addition to presenting a balanced spending plan for FY 2010-11, the 2010-2011 Adopted Budget also included an update to the 2011-2015 General Fund Forecast (the "Forecast") that incorporated the 2010-2011 Adopted Budget balancing actions. The Forecast reflects the City's contribution to retirement costs which are expected to continue to increase substantially over the Forecast period and by 2014-15, these costs will represent almost 25% of the total General Fund base budget. The Forecast does not include the infrastructure and maintenance backlog (mostly street maintenance) keyed to the City's inability to completely fund replacement and renewal projects. The Forecast also does not include any plan to address the $446 million of one-time needs or the $41 million of ongoing needs. Table 8 summarizes the updated Forecast shortfall, which totals $202.1 million through FY 2014-15.

Table 8
CITY OF SAN JOSE
2011-2015 GENERAL FUND FORECAST UPDATE
(in millions)

	2010-11	2011-12[1]	2012-13[1]	2013-14[1]	2014-15[1]	Total
Projected Base Budget Shortfall (Feb. 2010 Forecast)[2][3]	$ (116.0)	$ (20.2)	$ (18.0)	$ (21.5)	$ (5.8)	$ (181.5)
2010-2011 One-Time Solutions		(20.6)				(20.6)
Total Incremental Deficit	**$ (116.0)**	**$ (40.8)**	**$ (18.0)**	**$ (21.5)**	**$ (5.8)**	**$ (202.1)**
Total Cumulative Deficit	**$ (116.0)**	**$ (156.8)**	**$ (174.8)**	**$ (196.3)**	**$ (202.1)**	**$ (202.1)**

(1) Funding does not presume cost-of-living salary increases in any of the years beyond that currently committed to for two bargaining units in 2010-2011.
(2) Does not include Development Fee Programs. Does include the City's share of General Fund annual required contribution for retiree health care benefits. Also includes committed additions previously agreed upon by City Council, such as operating and maintenance funding for capital projects coming on line.
(3) Does not include the unmet/deferred infrastructure and maintenance one-time needs of $446 million and ongoing needs of $41 million See "*City Budget* – City's FY 2010-11 Budget."
Source: City of San José 2010-2011 Adopted Operating Budget.

The 2010-2011 Adopted Budget for the General Fund is summarized in Table 9.

Table 9
CITY OF SAN JOSE
GENERAL FUND BUDGET SUMMARIES
FY 2008-09, FY 2009-10, FY 2010-11 (in thousands)[1]

SOURCE OF FUNDS	2008-2009 Actuals	2009-2010 Modified Budget[2]	2010-2011 Adopted Budget[3]
FUND BALANCE			
Encumbrance Reserve	$ 41,648	$ 25,824	$ 25,824
Carryover	223,651	173,213	134,807
Total Fund Balance	265,299	199,037	160,631
GENERAL REVENUES			
Property Tax[4]	210,844	199,849	199,052
Sales and Use Tax	132,005	125,075	127,232
Transient Occupancy Tax	7,795	6,553	6,684
Franchise Fees	41,067	37,922	43,121
Utility Taxes	85,750	87,639	92,932
Telephone Line Tax[5]	7,870	21,600	20,525
Licenses and Permits	70,388	64,760	71,727
Fines and Forfeitures	13,905	17,093	17,130
Revenue from Use of Money and Property	6,888	3,498	3,050
Revenue from Local Agencies	52,317	50,902	45,612
Revenue from the State Government[4]	13,539	10,749	18,777
Revenue from the Federal Government	8,801	7,350	5,148
Revenue from the Federal Government-Recovery Act	0	10,834	10,703
Departmental Charges	27,276	27,538	29,582
Other Revenue	21,622	16,588	13,419
Total General Revenue	700,067	687,951	704,694
INTERFUND TRANSFERS AND REIMBURSEMENTS			
Overhead Reimbursements	38,635	39,454	33,868
Transfers to the General Fund[5]	48,170	31,535	37,554
Reimbursements for Services	16,648	17,068	17,348
Total Interfund Transfers and Reimbursements	103,453	88,057	88,770
TOTAL SOURCE OF FUNDS	$ 1,068,819	$ 975,044	$ 954,095
USE OF FUNDS			
DEPARTMENTAL			
General Government	$ 82,463	$ 83,038	$ 78,446
Public Safety	446,322	450,962	450,832
Capital Maintenance	66,164	63,205	58,913
Community Services	120,286	112,729	110,078
Total Departmental	715,235	709,934	698,269
NON-DEPARTMENTAL			
Citywide	99,671	124,779	118,906
Capital Expenditures	17,007	17,459	8,935
Transfers to Other Funds	37,868	24,864	29,039
Encumbrance Reserve	25,824	25,824	25,824
Earmarked Reserves[6]	0	41,468	43,813
Contingency Reserve[6]	0	30,716	29,309
Ending Fund Balance	n/a	n/a	n/a
Total Non-Departmental and Reserves	180,371	265,110	255,826
TOTAL USE OF FUNDS	$ 895,606	$ 975,044	$ 954,095

(1) Totals may not add due to independent rounding.
(2) 2009-2010 Modified Budget through March 31, 2010.
(3) Beginning Fund Balance amounts sbown in the 2010-2011 Adopted Budget are estimates, as the FY 2009-10 actual ending fund balance amounts were not available at the time the Adopted Budget is prepared.
(4) Property tax revenue received in-lieu of Motor Vehicle License Fee Revenue per the State-Local Agreement is budgeted as Property Tax Revenue, rather than as Revenue from the State.
(5) The Telephone Line Tax was approved by voters on November 4, 2008. On April 1, 2009 the City began collecting the Telephone Line Tax and simultaneously discontinued collection of the Emergency Communications System Support (ECSS) Fee. The ECSS fee was categorized as a transfer to the General Fund. See the "Major General Fund Revenues Sources – *Miscellaneous Revenues* – Telephone Line Tax" and "Major General Fund Revenues Sources – *Interfund Transfers and Reimbursements*."
(6) Actual application of Earmarked and Contingency Reserve amounts are reflected in the Use of Funds categories to which they were applied. At year end, the unexpended Reserve amounts are rebudgeted to the next fiscal year.

Source: City of San José 2010-2011 Adopted Operating Budget.

Adjustments to the 2010-2011 Adopted Budget. Subsequent to the adoption of the City's FY 2010-11 budget, the City reached an agreement with the Police Officers Association (POA) that reduced the compensation and benefits for members of that bargaining group. Cost savings associated with the agreement were used to restore 70 police officer positions that were eliminated in the 2010-2011 Adopted Budget. The POA membership ratified the proposal and it was approved by the City Council on August 3, 2010. See "Labor Relations – *Recent Agreements*" for more information.

The City currently is in negotiations with the International Association of Firefighters (IAFF, Local 230). See "Labor Relations – *Status of Current Negotiations*" for more information.

Land Annexation

In 2006, the City and the County entered into a settlement agreement that requires, among other things, that the City make good faith efforts to initiate and complete the processing of annexations into the City of existing County pockets that are 150 acres or less by April 15, 2011. Additionally, under the settlement agreement, the City agreed to make good faith efforts to initiate the annexation process for County pockets greater than 150 acres by April 15, 2011.

The City has a program in place to process the annexations of County pockets of 150 acres or less over the course of FY 2006-07 through FY 2010-11, with the smaller pockets processed in advance of the larger ones. In the event all of these proposed annexations of 150 acres or less are completed, the City's population would increase by approximately 16,000 residents, or 1.6% of the current population, and the City's acreage would increase by approximately 1,500 acres of land, or 1.3% of the current land area. As of June 2010, the City had completed the annexations of County pockets totaling approximately 897 acres. There are five additional pockets scheduled for annexation by the end of the 2010 calendar year consisting of an additional 445 acres. Under current State law (which sunsets in 2014) annexations of County pockets that are 150 acres or less do not require an election of the residents.

The City has not yet initiated the annexation process for any County pockets greater than 150 acres in size. The City estimates that there are 8 pockets of this size, totaling approximately 3,500 acres. Under current State law, annexation of County pockets greater than 150 acres may, in some cases, require an election of the residents.

The City projects operations and maintenance expenses of $180,000 in FY 2010-11 related to additional street infrastructure due to annexation of County pockets. These costs are funded in the Department of Transportation operating budget.

Major General Fund Revenue Sources

Following is a discussion of the City's principal General Fund revenue sources: Sales and Use Taxes; Property Taxes; Licenses, Permits and Miscellaneous Taxes; Utility Taxes; and Revenue from Local Agencies. In the 2009-2010 Modified Budget, these top five sources of revenue total approximately $528.2 million, representing 76.8% of General Fund revenues. For FY 2010-11, the Adopted Budget projects these top five sources to total approximately $535.5 million, representing 76.7% of the City's projected General Fund general revenues. It is important to note that for the purpose of this presentation, general revenues, referred to for brevity in the following sections as General Fund revenues, correspond to the items shown under the General Revenues category in Table 9, and do not include Interfund Transfers and Reimbursements, which are discussed separately below. The 2009-2010 Modified Budget represents the 2009-2010 Adopted Budget and any subsequent budget adjustments as approved by City

Council through March 31, 2010. A more detailed analysis of these revenues, including a discussion of year-over-year increases/decreases in revenue collections, may be found in the City's 2010-2011 Adopted Operating Budget.

Property Taxes and Assessed Valuations

The assessed valuation of property is established by the County Assessor and reported at 100% of the full cash value as of January 1, except for public utility property, which is assessed by the State Board of Equalization.

The County collects the ad valorem property taxes. Taxes arising from the 1% levy are apportioned among local taxing agencies based on a formula established by State law in 1979. Under this formula, the City receives a base year allocation plus an allocation based on growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Beginning in FY 1990-91 (with the adoption of new State legislation), the County deducts the pro-rata cost of collecting property taxes from the City's allocation.

The California Community Redevelopment Law authorizes redevelopment agencies to receive the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, the other local taxing authorities realize tax revenues from such properties only on base-year valuations that are frozen at the time a redevelopment project area is created. The tax revenues resulting from increases in assessed valuations flow to the redevelopment areas. The City has created redevelopment project areas pursuant to California law. Generally, funds must be spent within the redevelopment areas in which the tax increment revenues were generated, and may only be spent on projects that qualify under California redevelopment law.

Table 10 sets forth a ten-year history of the City's assessed valuation.

Table 10
CITY OF SAN JOSE
HISTORICAL END OF FISCAL YEAR ASSESSED VALUE OF PROPERTY
(in thousands)

Fiscal Year	Net Assessed Valuation[1]	Percentage Change
1999-00	$ 63,947,881	9.42 %
2000-01	57,175,296	(10.59)
2001-02	63,975,252	11.89
2002-03	67,915,616	6.16
2003-04	73,077,977	7.60
2004-05	77,532,649	6.10
2005-06	85,234,836	9.93
2006-07	93,616,483	9.83
2007-08	101,093,290	7.99
2008-09	105,827,554	4.68
2009-10	103,018,120	(2.65)

(1) Valuations as of the end of the fiscal year, and net of exemptions.
Sources: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2009; and Department of Finance, County of Santa Clara.

Under current County policy, the City's allocation of total ad valorem taxes is received in approximately the following cumulative percentages: 40% by mid-December, 50% by the first week of January, 85% by the third week of April, 90% by the end of April and 100% by the end of June.

The County Board of Supervisors approved the implementation of an alternative method of distribution of tax levies and collections of tax sale proceeds (a "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the County's Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The County then receives all future delinquent payments, penalties and interest. The Teeter Plan was effective in the County beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts that provide for accelerated judicial foreclosure of property for which special taxes or assessments are delinquent.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may, by resolution adopted no later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any political subdivision in the County if the rate of secured property tax delinquency in that political subdivision in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that political subdivision. If the Teeter Plan were discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency.

Property Tax receipts collected for the City by the County are set forth in Table 11.

Table 11
CITY OF SAN JOSE
PROPERTY TAX RECEIPTS
(in thousands)

Fiscal Year	Property Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2006-07[1]	$ 189,683	27.1 %	13.9 %
2007-08[1]	203,718	28.2	7.4
2008-2009 Actuals[1]	210,844	30.1	3.5
2009-2010 Modified Budget[1][2]	199,849	29.0	(5.2)
2010-2011 Adopted Budget[1]	199,052	28.5	(0.4)

(1) Includes motor vehicle license fee (MVLF) property tax replacement revenue. See "Budget – *State Budget* – FY 2004-05 Budget Act."

(2) Proceeds from the City's securitization of Proposition 1A is included in the 2009-2010 Modified Budget, which offsets the borrowing of 8% of local government property tax revenues by the State. See "Budget – *State Budget* – FY 2009-10 Budget Act."

Source: City of San José 2010-2011 Adopted Operating Budget.

Under California law, property owners are entitled to an assessment based on the lower of the fair market value of their property as of the property tax lien date (January 1) or the assessed value as determined at the time of purchase or construction, and increased by no more than two percent (2%) annually. A reduction of a property's assessed valuation may occur upon the request of the property owner or the County Assessor may unilaterally reduce the assessed valuations of properties in response to declining market values. In the event a property owner's request for a reduction in assessed value is denied, the property owner may file an appeal.

On July 1, 2010, the County Assessor issued its "2010 Assessment Roll" media release documenting taxable FY 2010-11 real and business property values for the City and the Agency. The media release indicated that there was a decrease to the City's assessment roll of 2.3% and a decrease to the Agency's roll of 7.3%. The declines were attributable to a continued drop in real property values, a steep decline in the value of business personal property, and the reduction of assessed real property values by a negative California Consumer Price Index factor, the first since Proposition 13 passed in 1978.

In preparing its budget, the City forecasts property taxes based on each of the specific categories of receipts (secured and unsecured, current and delinquent receipts, supplemental, and State replacement funds). Secured Property Tax receipts are based on the County Assessor's estimate of growth or reduction in assessed valuation, adjusted for estimates in growth, if any, for redevelopment project areas. Estimates of other property tax receipts are primarily based on historical collections. The estimate of Property Tax receipts for FY 2010-11 takes into account the County Assessor's latest projections regarding changes in assessed valuations of property located in the City. Due to constantly changing assessed valuations and the unpredictable nature of payment collections, property tax receipts do not trend proportionately with annually reported assessed values.

Table 12 presents a list of the ten largest taxpayers for FY 2009-10, based on secured assessed valuations, within the City. A portion of these property owners are located in Agency project areas.

Table 12
CITY OF SAN JOSE
TEN LARGEST LOCAL SECURED PROPERTY TAXPAYERS
(in thousands)

Name	Assessed Property Valuation	Percentage of Total
Cisco Technology Inc	$ 1,226,712	1.08%
Blackhawk Parent LLC	968,362	0.85
The Irvine Company LLC	647,225	0.57
Legacy Partners	645,974	0.57
Hitachi Global Storage Techs Inc	617,312	0.54
VF Mall LLC	492,108	0.43
Carr NP Properties LLC	386,866	0.34
EBay Inc	357,881	0.31
Sobrato Group	347,806	0.31
Hercules Holding II LLC	342,578	0.30
Total Top 10 secured assessed property valuation, FY 2009-10	$ 6,032,823	5.30%
Total City of San José secured assessed property valuation, FY 2009-10	$ 113,864,934	

Source: California Municipal Statistics, Inc.

Sales and Use Taxes

The sales tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The use tax is an excise tax imposed on a person for the storage, use or other consumption of tangible personal property purchased from any retailer. The proceeds of sales and use taxes (collectively, "Sales Tax") imposed within the boundaries of the City are distributed by the State to various agencies as shown below in Table 13. The total Sales Tax rate for the County of Santa Clara currently is 9.25% and is allocated as follows:

Table 13
CITY OF SAN JOSE
SALES TAX RATES[(1)]

State – General State – Fiscal Fund	6.00%
State – Fiscal Recovery Fund	0.25
State – Local Revenue Fund	0.50
Local – City of San José	0.75
Local – Santa Clara County	0.25
Public Safety Fund (Proposition 172)	0.50
Sub-Total Statewide Sales and Use Tax	8.25
Santa Clara County Transit District (SCCT)	0.50
Santa Clara County Valley Transportation Authority (SCVT)	0.50
Total	9.25%

(1) The 0.125% increase in sales tax approved by voters in November 2008 to support BART has not yet been implemented. See "Demographic and Economic Information - *Transportation.*"
Source: California State Board of Equalization.

The City's budgeting forecast of Sales Tax receipts is based on State officials' estimates and the forecast of local economists. In addition to the 0.75% Sales Tax to be received by the City in FY 2010-11, the City's budgeting forecast also includes the 0.50% Sales Tax extension under Proposition 172 approved by voters on the November 1993 ballot, property tax in-lieu payments to reimburse the City for reduction in Sales Tax receipts resulting from the passage of Proposition 57, and the redirection of sales tax revenues to pay the State's economic recovery bonds.

Table 14 shows Sales Tax receipts, their respective percentage of General Fund revenues, and year-over-year changes since FY 2006-07.

Table 14
CITY OF SAN JOSE
SALES TAX RECEIPTS
(in thousands)

Fiscal Year	Sales Tax Receipts[(1)]	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2006-07	$ 149,962	21.4 %	6.9 %
2007-08	154,002	21.4	2.7
2008-2009 Actuals	132,005	18.9	(14.3)
2009-2010 Modified Budget	125,075	18.2	(5.2)
2010-2011 Adopted Budget	127,232	18.2	1.7

(1) Includes property tax in-lieu payments to reimburse the City for reduction in Sales Tax receipts resulting from the passage of Proposition 57 and the redirection of sales tax revenues to pay the State's economic recovery bonds.
Source: City of San José 2010-2011 Adopted Operating Budget.

Utility Taxes

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company's consumption of all utilities used in the production or supply of its service is not taxed). Except as described below with respect to the City's telephone utility user's tax, the consumers of these services pay a tax at the rate of five percent (5%) of the utility charges to the utility company that acts as a collection agent for the City. The utility company collects the tax from consumers on a monthly basis and is required to remit that amount to the City by the 25^{th} of the following month. The tax is not applicable to State, County, or City agencies. Also, per State law, insurance companies and banks are exempted from the tax.

On November 4, 2008, voters approved Measure K, a ballot measure that replaced the existing tax on telephone service with an updated telecommunications user's tax. The updated telecommunication user's tax took effect on April 1, 2009 and reduces the 5.0% tax rate to 4.5%, and applies the tax to all intrastate, interstate and international communications services regardless of technology used to provide such services, such as private communication services, voicemail, paging, and text messaging, and continues to tax existing communication services including landline, wireless, Voice over Internet Protocol (VoIP), and bundled services, where taxable and non-taxable services are bundled together.

In connection with placement of the telecommunications user's tax measure on the November ballot, the City Council directed the Finance Department to continue working with large business partners to determine if the new telecommunications user's tax would create a disproportionate financial impact on large businesses and, if so, to provide a mitigation plan to the Council if the ballot measure were approved by the voters. On February 24, 2009, the City Council approved the Finance Department's proposed mitigation plan, and adopted an ordinance amending the new voter approved telecommunications user's tax to cap the maximum amount of telecommunications user's tax payable by customers that meet certain threshold requirements in order to mitigate any disproportionate financial impact on customers. The ordinance went into effect on April 3, 2009, and expires on December 31, 2012, unless extended by the City Council.

In 2007, the California Court of Appeals held that the City of Los Angeles ("Los Angeles") had violated Proposition 218 in its application of its telephone utility user's tax on wireless telephone calls when Los Angeles changed its taxing methodology without voter approval. See *AB Cellular LA LLC v. City of Los Angeles* (2007) 150 Cal.App.4^{th} 747 ("*AB Cellular*"). Since *AB Cellular* was decided, Los Angeles, like the City, sought and obtained voter approval of a ballot measure which reduced and modernized its telephone utility user's tax in order to address, in part, the issues raised by *AB Cellular*. However, in light of the published *AB Cellular* decision, the City could be subject to potential refund claims in connection with revenues derived from wireless calls under the City's former telephone utility user's tax. Even though the City has a tax refund ordinance which limits the refund period to one year, the courts have not definitively ruled on whether claimants can be limited to a one year refund period or may be able to claim a refund for a three year period (which corresponds to the otherwise applicable statute of limitations).

For FY 2007-08 the revenue derived from wireless calls was approximately $16.8 million. In FY 2008-09 through March 31, 2009 the, last date through which the City received tax revenue under its previous structure, tax revenue derived from wireless calls was $14.8 million. See "Litigation and Significant Claims" for more information regarding claims seeking refunds of the City's former telephone utility user's tax.

Table 15 shows Utility Tax receipts, their respective percentage of General Fund revenues, and year-over-year changes since FY 2006-07.

Table 15
CITY OF SAN JOSE
UTILTY TAX RECEIPTS
(in thousands)

Fiscal Year	Utility Tax Receipts(1)	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2006-07	$ 79,129	11.3 %	4.8 %
2007-08	82,254	11.4	3.9
2008-2009 Actuals	85,750	12.2	4.2
2009-2010 Modified Budget	87,639	12.7	2.2
2010-2011 Adopted Budget	92,932	13.3	6.0

Source: City of San José 2010-2011 Adopted Operating Budget.

Licenses, Permits and Miscellaneous Taxes

This category comprises six major subcategories: business taxes, cardroom taxes, disposal facility taxes, fire permits, building permits and miscellaneous other licenses and permits. Two cardroom clubs exist in the City. The City imposes an annual "base tax" on each cardroom permittee in an annual minimum amount of $150 per year, plus an additional tax in the amount of $18 per employee based on the average number of employees, not to exceed a maximum of $25,000. In addition, if the annual gross revenue of the cardroom exceeds $10,000, the City imposes a tax equal to 13% of the cardroom's gross revenues. Cardroom tax collections are expected to be approximately $12.7 million in FY 2009-10. In June 2010, the voters approved a measure to increase the gross receipts tax on cardrooms from 13% to 15%. Additionally, the voters approved: 1) increasing the number of tables allowed in the City from 80 to 98; (2) increasing the number of tables allowed at each cardroom from 40 to 49; (3) removing the limit on the number of permissible card games by permitting any card game allowed under State law consistent with City regulations; and (4) increasing the current $200 betting limit to that allowed under State law which currently specifies no limit. Revenues from the cardroom tax in FY 2010-11 are anticipated to be $17.7 million.

On August 3, 2010, the City Council approved a ballot measure proposal for the November 2, 2010 ballot ("Measure U") which, if approved by a majority of voters, would impose a tax on marijuana businesses in San José at a rate of up to ten percent (10%) of gross receipts from the planting, cultivation, harvesting, transporting, manufacturing, compounding, converting, processing, preparing, storing, packaging, and sales of marijuana and ancillary products in the City.

This tax will not take effect until the City Council, by ordinance, sets the rate of the tax, which cannot exceed 10% of gross receipts. At this time, the City is unable to determine what, if any, additional tax revenues would be generated should a majority of the voters approve Measure U on November 2.

Table 16 shows Licenses, Permits and Miscellaneous Taxes receipts, their respective percentage of General Fund revenues, and year-over-year changes since FY 2006-07.

Table 16
CITY OF SAN JOSE
LICENSES, PERMITS AND OTHER MISCELLANEOUS TAX RECEIPTS
(in thousands)

Fiscal Year	Licenses, Permits and Other Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2006-07	$ 74,561	10.6 %	(1.7) %
2007-08	74,059	10.3	(0.7)
2008-09 Actuals	70,388	10.1	(5.0)
2009-2010 Modified Budget	64,760	9.4	(8.0)
2010-2011 Adopted Budget	71,077	10.2	9.8

Source: City of San José 2010-2011 Adopted Operating Budget.

Revenue from Local Agencies

This category includes reimbursements and payments from local agencies, including the Redevelopment Agency. The $45.6 million budgeted for this category in the 2010-2011 Adopted Budget includes reimbursements from the Agency ($31.2 million), central fire district payments ($5.6 million); paramedic programs payments ($1.8 million); and other miscellaneous payments ($7.0 million).

The $31.2 million of reimbursements from the Agency covers the following expenses:

- $15.0 million in debt service payment on the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center Refunding Project) (the "Convention Center Bonds");

- $11.0 million in reimbursement for City staff providing services to Agency projects; and

- $5.2 million in payment for eligible City expenditures in redevelopment project areas

In light of the increased dependence on reimbursements from the Agency, the City's General Fund has become significantly exposed to changes in the Agency's fiscal health. Recent declines in tax increment and diversions of tax increment as part of the recent State budgets (described further below) have put the Agency's ability to continue making these reimbursements and other payments under pressure. See *Property Taxes and Assessed Valuations*, above. The Agency is in the process of revising its FY 2010-11 Capital and Operating Budgets. The proposed revised budgets are expected to be released on September 17, 2010 and be voted on by the City Council and Agency Board on November 2, 2010.

The potential impact on the City's General Fund of current and future declines in tax increment is uncertain at this time. If the Agency does not make transfers to the General Fund for debt service payments on the Convention Center Bonds, then the General Fund would be obligated to make those debt service payments. However, to the extent that the Agency is unable to make transfers to the City to pay for staff costs and capital projects, the City would have the option of eliminating those services and projects.

In addition to the Agency being an ongoing source of revenue to the City through the annual reimbursements discussed above, in May 20010 the City loaned the Agency money from various special funds to enable the Agency to make the state mandated payments to the Special Education Revenue Augmentation Fund (the "SERAF Loan"). The total principal amount of the SERAF Loan is $75.0 million which was funded from the following sources:

- A total of $65.0 million from the Low and Moderate Income Housing Fund. The proceeds of two finance transactions were used to support various affordable housing projects and programs which freed up a corresponding amount in the Low and Moderate Housing Income Fund to be loaned to the Agency: (1) $40.0 million from the issuance of Housing Set-Aside Tax Increment Allocation Bonds (the General Fund is not liable for this portion of the SERAF Loan.) (2) $25.0 million from proceeds of the City of San José Financing Authority Lease Revenue Commercial Paper Program (this is a General Fund backed program and therefore, to the extent that the Commercial Paper Notes are required to be redeemed for any reason, and the Agency is unable to repay the any portion of the SERAF Loan funded from the Commercial Paper Notes, then the General Fund would be required to make the necessary payment.)

- $10.0 million from the fund balances of various capital funds (Subdivision Park Trust Fund; Sewage Treatment Plant Connection Fee Fund; Ice Center Revenue Fund). To the extent that those special capital funds require replenishment at any time due to the capital needs of the facility, and the Agency is unable to repay the Loan in whole or in part, the General Fund would be required to make the necessary payment.

Additionally, pursuant to the terms of the Agency's ERAF Loan as described above in *State Budget* – FY 2004-05 Budget Act, the Agency's loan payments are approximately $4.5 million per year through FY 2015-16. In the event that the Agency has insufficient funds to make any of its ERAF Loan payments, the County Auditor is required to deduct the payment from the City's first available ad valorem property taxes.

Table 17 shows Revenue from Local Agencies, their respective percentage of General Fund revenues, and year-over-year changes since FY 2006-07.

Table 17
CITY OF SAN JOSE
REVENUE FROM LOCAL AGENCIES
(in thousands)

Fiscal Year	Revenue from Local Agencies	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2006-07	$ 45,314	6.5 %	5.3 %
2007-08	49,127	6.8	8.4
2008-2009 Actuals	52,317	7.5	6.5
2009-2010 Modified Budget	50,902	7.4	(2.7)
2010-2011 Adopted Budget	45,613	6.5	(10.4)

Source: City of San José 2010-2011 Adopted Operating Budget.

Miscellaneous Revenues

The following provides a discussion of the remaining General Fund revenues. Included in this category are Revenue from the State; Telephone Line Tax; Franchise Fees; Departmental Charges (permits, fees for use); Revenue from Use of Money and Property (interest income); Transient Occupancy Tax; Fines, Forfeitures and Penalties; Revenue from the Federal Government; and Other Revenues. In the 2009-2010 Modified Budget, these combined sources of revenue total approximately $159.7 million, representing 23.2% of General Fund revenues. In the 2010-2011 Adopted Budget, these combined sources total approximately $163.0 million, representing 23.3% of General Fund revenues.

Revenue from the State. Revenue from the State consists of Motor Vehicle License Fees ("MVLF"), Airplane in-lieu taxes and State grants.

Commencing in FY 2004-05, as a result of the State-Local Agreement, the MVLF rate is reduced from 2% to 0.65% of the market value of the vehicle. Also commencing in FY 2004-05, by State statute, the State is required to allocate to cities and counties property tax revenues in order to make up the difference in revenues as a result of the MVLF rate reduction from 2% to 0.65%. In FY 2006-07 and thereafter, the replacement property taxes will increase at rates corresponding to the rate of increase, if any, in each jurisdiction's gross assessed property value. Additionally, per the amendments to the State Constitution enacted by the passage of Proposition 1A in November 2004, if the MVLF is reduced below 0.65%, then the State must replace the corresponding revenues to cities and counties. The MVLF replacement property tax revenue is reflected in the City's budget as Property Tax Revenue, rather than Revenue from the State.

Revenue from the State in the 2009-2010 Modified Budget is approximately $10.7 million, representing 1.6% of General Fund revenues and a decrease of 20.6% from FY 2008-09. Revenue from the State in the 2010-2011 Adopted Budget is approximately $18.5 million, representing 2.6% of budgeted General Fund revenues and an increase of 71.7% from the 2009-2010 Modified Budget.

Telephone Line Tax. On November 4, 2008, voters approved Measure J, a ballot measure that replaced the Emergency Communications System Support (ECSS) Fee with a Telephone Line Tax. The City began collecting the Telephone Line Tax and simultaneously discontinued collecting the ECSS fee on April 1, 2009. The Telephone Line Tax is imposed at the rate of $1.57 per telephone line and $11.82 per commercial trunk line. These rates are lower than the comparable ECSS Fee rates of $1.75 per telephone line and $13.13 per commercial trunk line. The Telephone Line Tax is shown as a General Fund revenue line item commencing with the 2009-2010 Budget whereas the ECSS Fee was shown in prior budget documents as a transfer from the ECSS Fee Fund to the General Fund. See "Major General Fund Revenues Sources – *Interfund Transfers and Reimbursements*."

The City collected ECSS revenues of $21.3 million for FY 2006-07 and $23.8 million for FY 2007-08. For FY 2008-09, the City collected ECSS fees of $16.6 million and Telephone Line Tax revenues of $7.9 million, for an aggregate total of $24.5 million. Telephone Line Tax revenues in the 2009-2010 Modified Budget are approximately $21.6 million, representing 3.1% of budgeted General Fund revenues. The 2010-2011 Adopted Budget projects revenues from Telephone Line Tax revenues to total approximately $20.5 million, representing 2.9% of budgeted General Fund revenues and a 5% decrease from the 2009-2010 Modified Budget.

Franchise Fees. Franchise Fees are collected mainly from utility providers for the use of public rights-of-way. Franchise Fees total approximately $37.9 million in the 2009-2010 Modified Budget, representing 5.5% of General Fund revenues and a decrease of 7.7% from FY 2008-09. The 2010-2011 Adopted Budget projects revenues from Franchise Fees to total approximately $43.1 million, representing 6.2% of budgeted General Fund revenues and an increase of 13.7% from the 2009-2010 Modified Budget. Franchise Fees include revenues from electricity, gas and water utility services, commercial solid waste, cable television, and City-Generated Towing and nitrogen pipelines. Actual collections are subject to significant fluctuations from the impact of weather conditions and/or rate changes because the largest sources of Franchise Fees are based on utility revenues.

In February 2010, the City and PG&E entered into a settlement agreement to resolve a suit brought by the City for breach of PG&E's franchise agreements, among other claims. The dispute concerned the application of a State statute to the amounts remitted to the City by PG&E for sales of gas and electricity by third party energy service providers to customers in San José ("Surcharges"). In exchange for the City dismissing its case against PG&E, PG&E agreed to pay $6.0 million for the past due Surcharges, to give the City a credit for approximately $1.1 million that the City owed to PG&E for electricity used for the operation of street lights, and to increase the franchise fee rate from 2.0% to 2.3% of PG&E's gross receipts from the sale of gas and electricity in the City through 2021. In May 2010, the California Public Utilities Commission approved the 0.3% rate increase.

Departmental Charges. Departmental Charges are approximately $27.5 million in the 2009-2010 Modified Budget, representing 4.0% of General Fund revenues and an increase of 1.0% from FY 2008-09. The 2010-2011 Adopted Budget projects revenues from Departmental Charges to total approximately $28.6 million, representing 4.1% of budgeted General Fund revenues and an increase of 4.0% from the 2009-2010 Modified Budget.

Revenue from Use of Money and Property. Revenue from Use of Money and Property in the 2009-2010 Modified Budget decreased to approximately $3.5 million, representing 0.5% of General Fund revenues and a decrease of 49.2% from FY 2008-09. This decline reflects the impact of lower yields, as well as the application of General Fund reserves to accommodate in part the City's budget shortfall. The 2010-2011 Adopted Budget projects these revenues to total approximately $3.0 million, representing 0.4% of budgeted General Fund revenues and a decrease of 14.5% from the 2009-2010 Modified Budget. In this case, the decline is the result of lower yields which were built into the FY 2010-11 Budget.

Transient Occupancy Tax. General Fund revenue from the Transient Occupancy Tax in the 2009-2010 Modified Budget is approximately $6.6 million, representing 1.0% of General Fund revenues and a decrease of 15.9% from FY 2008-09. The 2010-2011 Adopted Budget projects revenue from the Transient Occupancy Tax to total approximately $6.7 million, representing 1.0% of budgeted General Fund revenues and an increase of 2.0% from the 2009-2010 Modified Budget.

Fines, Forfeitures and Penalties. Revenues from Fines, Forfeitures and Penalties in the 2009-2010 Modified Budget are approximately $17.1 million, representing 2.5% of General Fund revenues and an increase of 22.9% from FY 2008-09. The 2010-2011 Adopted Budget projects revenues from Fines, Forfeitures and Penalties to total approximately $17.1 million, representing 2.5% of budgeted General Fund revenues and an increase of 0.2% from the 2009-2010 Modified Budget.

Revenue from the Federal Government. Revenue from the Federal Government is in the form of various grants received by the City. Revenue from the Federal Government in the 2009-2010 Modified Budget is estimated to be approximately $7.3 million, representing 1.1% of General Fund revenues and a decrease of 16.5% from FY 2008-09. The revenue estimates in this category include only those grant proceeds that are obligated to be paid in the fiscal year. The amount of federal grants payable in FY 2010-11 is estimated at $2.1 million.

Revenue from the Federal Government – Recovery Act. This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 that is recorded in the General

Fund. Associated expenditure appropriations are also included in the FY 2009-10 Budget in the Capital and City-Wide expenditure categories. Currently, no additional grant funds are programmed for FY 2010-11. It is likely that grant funding from FY 2009-10 will be rebudgeted to FY 2010-11 as part of the Adopted Budget process.

Other Revenue. Other Revenue in the 2009-2010 Modified Budget is approximately \$16.6 million, representing 2.4% of General Fund revenues and a decrease of 23.3% from FY 2008-09. The 2010-2011 Adopted Budget projects these revenues to be approximately \$23.4 million, representing 3.3% of budgeted General Fund revenues and an increase of 41.0% from the 2009-2010 Modified Budget. Major categories of revenue included in Other Revenue are HP Pavilion revenues (parking, arena and suite rentals, and naming rights), investment program reimbursements, the Public, Educational and Governmental Access ("PEG Access") Facilities payment from Comcast, and other miscellaneous revenues.

Interfund Transfers and Reimbursements

This source of revenue to the General Fund is estimated at \$88.1 million for FY 2009-10. This includes Overhead Reimbursements (\$39.5 million), Transfers to the General Fund (\$31.5 million) and Reimbursement for Services (\$17.1 million). Historically, one of the largest sources of revenue is the transfer from the Emergency Communications System Support (ECSS) Fee Fund. The ECSS Fee became effective on January 1, 2005, and was enacted to fund approximately 80% of the cost of operating, maintaining and upgrading the City's 911 emergency communication system. The ECSS Fee was charged on landline and cellular telephones with a billing address in the City. On November 4, 2008, the voters approved a measure to replace the ECSS Fee with a Telephone Line Tax, which became effective on April 1, 2009. See "Major General Fund Revenues Sources – *Miscellaneous* Revenues – Telephone Line Tax."

Lawsuits challenging similar fees imposed by other jurisdictions including Union City and Santa Cruz County have been brought, alleging, among other theories, that these fees violate Proposition 218. In 2008, the California Court of Appeals for the First District held that Union City's fee violated Proposition 218 in that Union City's fee was a special tax that had not been approved by the voters. See *Bay Area Cellular Telephone Company et al., v. City of Union City* (2008) 162 Cal.App.4th 686 ("*Bay Area Cellular*"). The First District Court of Appeals' decision in *Bay Area Cellular* is in conflict with an earlier but unpublished decision involving Santa Cruz County's fee in which the Sixth District Court of Appeals upheld the imposition of the fee. However, the Sixth District Court of Appeals' unpublished decision may not be cited as authority by other litigants.

The ECSS ordinance, in accordance with State law, provides for a one-year period for filing refund claims. To date, no claims have been filed against the City; the final date for filing was March 31, 2010. In the event that the City's ECSS Fee was challenged and a court determined that it violated Proposition 218 or was otherwise unenforceable, and if claims were filed, the City could be liable for refunds of the ECSS Fees. While the City's ECSS ordinance provides for a one-year refund period, the courts have not definitively ruled on whether claimants can be limited to a one-year refund period or may be able to claim a refund for a three-year period (which corresponds to the otherwise applicable statute of limitations).

The City collected ECSS revenues of \$23.8 million for FY 2007-08. For FY 2008-09, the City collected ECSS fees of \$16.6 million and Telephone Line Tax revenues of \$7.9 million, for an aggregate total of \$24.5 million.

City's Financial Condition; Limitation on Sources of Revenues

There are limitations on the ability of the City to increase revenues payable to the General Fund. Legal limitations generally restrict the ability of cities to raise or increase taxes without voter approval and to increase fees in excess of the amount needed to provide the service or facilities with respect to which such fees are charged, and increases to property-related fees may be subject to majority protest pursuant to Proposition 218. Additional limitations may also be imposed through legislation or initiatives. Furthermore, existing revenues may be subject to certain risk factors. See "Major General Fund Revenue Sources" for more information.

Financial Operations

Financial Statements

Since FY 2001-02, the City has prepared its audited Basic Financial Statements (referred to as General Purpose Financial Statements in previous years) in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34). The Basic Financial Statements provide both government-wide financial statements with a long-term perspective on the City's activities while retaining the more traditional fund-based financial statements that focus on near-term inflows, outflows, and balances of spendable financial resources. The government-wide financial statements report on a full accrual basis and include comprehensive reporting of the City's infrastructure and other fixed assets.

Tables 18 and 19 on the following pages summarize financial information contained in the City's Basic Financial Statements as of June 30 for FY 2004-05 through FY 2008-09. The tables include information solely on the General Fund of the City and the debt service funds that are funded from General Fund revenues.

Table 18
GENERAL FUND
BALANCE SHEET
FY 2004-05 through FY 2008-09

	2004-05	2005-06	2006-07	2007-08	2008-09
ASSETS					
Cash and Pooled Investments	$ 177,335,733	$ 221,735,443	$ 226,712,766	$246,586,004	$218,535,366
Other Investments	--	--	--	--	--
Receivables:					
Taxes	26,904,245	27,619,359	32,078,847	30,970,055	27,594,883
Accrued Interest	2,101,442	3,392,856	4,860,345	4,947,699	1,295,495
Grants	1,443,154	2,619,467	6,600,384	4,825,492	3,666,756
Loans	2,141,459	2,141,459	2,391,459	2,141,459	2,391,459
Other	15,552,300	17,295,305	15,816,332	17,085,710	15,496,430
Due from Other Funds	3,219,488	10,598,356	34,744,681	19,165,611	5,688,353
Due from Outside Agency	194,910	245,706	1,896,469	2,765,396	3,336,027
Advances to Other Funds	3,676,030	3,634,522	3,607,282	3,337,934	3,332,852
Advances and Deposits	116,461	73,761	12,961	12,961	12,961
Restricted Assets:					
Cash and Pooled Investments	1,052,978	975,019	932,700	1,023,761	722,177
Other Investments	11,371	79,834	85,526	--	--
Other Assets	--	--	--	346,736	--
TOTAL ASSETS	$ 233,749,571	$ 290,411,087	$ 329,739,752	$333,208,818	$282,072,759
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	$ 9,132,077	$ 13,212,020	$ 10,132,718	$10,718,772	$12,139,373
Accrued Salaries, Wages and Payroll Taxes	16,384,086	18,990,589	20,929,575	25,862,423	34,180,502
Due to Other Funds	264,182	44,052	131,338	1,169,051	277,859
Due to Outside Agency	504,787	488,794	301,846	529,138	696,584
Deferred Revenue	5,699,248	8,634,963	6,946,365	7,483,910	12,096,291
Advance, Deposits, and Reimbursement Credits	7,203	7,203	7,203	7,203	7,203
Advances from Other Funds	--	604,350	250,000	250,000	500,000
Other Liabilities	9,726,575	11,459,625	10,443,662	10,055,511	10,982,079
TOTAL LIABILITIES	$ 41,718,158	$ 53,441,596	$ 49,142,707	$56,076,008	$70,879,891
FUND EQUITY					
Fund Balances:					
Reserved for Encumbrances	$ 22,517,227	$ 26,362,154	$ 28,678,478	$41,648,273	$25,824,094
Reserved for Non-current Advances and Loans	6,998,299	6,904,595	7,029,928	6,862,851	6,576,280
Unreserved:					
Designated for Contingencies	47,022,980	75,972,562	67,176,372	63,839,981	47,296,128
Designated for Future Projects	56,644,732	68,555,104	91,849,562	69,029,254	50,453,640
Undesignated	58,848,175	59,175,076	85,862,705	95,752,451	81,042,726
TOTAL FUND EQUITY	$ 192,031,413	$ 236,969,491	$ 280,597,045	$277,132,810	$211,192,868
TOTAL LIABILITIES AND FUND EQUITY	$ 233,749,571	$ 290,411,087	$ 329,739,752	$333,208,818	$282,072,759

Source: City of San José Comprehensive Annual Financial Reports, FY 2004-05 through FY 2008-09.

Table 19
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FY 2004-05 through FY 2008-09

	2004-05	2005-06	2006-07	2007-08	2008-09
REVENUES					
Taxes:					
Property Taxes	$ 146,941,749	$ 168,523,127	$ 191,825,613	$203,718,290	$210,843,575
Sales Taxes	133,113,434	140,327,107	149,962,080	154,001,942	132,005,205
Utility Taxes	73,081,153	75,488,559	79,129,154	82,254,430	93,619,124
State of California in-lieu Tax[1].	6,011,302	5,817,221	5,910,847	9,244,157	8,838,369
Franchise Taxes	33,721,621	36,759,857	40,415,138	41,063,799	41,067,393
Miscellaneous Taxes	6,408,705	7,688,090	8,600,000	9,560,000	7,795,177
Total Taxes	399,277,964	434,603,961	475,842,832	499,842,618	494,168,843
Licenses, Permits, and Fines	86,517,500	90,351,138	88,611,157	89,655,944	84,274,251
Grants	9,022,374	12,231,773	20,487,739	12,762,108	16,365,749
Charges for Current Services	28,067,256	27,847,331	29,624,325	30,533,402	28,139,927
Interest and Other Revenues	36,536,238	37,515,096	59,718,885	61,613,611	40,605,741
TOTAL REVENUES	$ 559,421,332	$ 602,549,299	$ 674,284,938	$694,407,683	$663,095,917
EXPENDITURES					
Current:					
General Government	$ 72,429,603	$ 78,504,837	$ 86,047,864	$86,907,472	98,536,305
Public Safety	332,540,461	341,794,392	368,839,637	416,255,089	419,043,439
Capital Maintenance	37,722,771	37,666,933	43,303,338	50,678,104	53,439,861
Community Services	125,850,098	124,057,227	129,063,357	141,877,817	138,991,586
Sanitation	1,521,806	1,735,317	1,832,698	1,896,091	2,620,646
Capital Outlay	8,691,850	27,288,306	3,921,801	1,468,606	5,233,310
Debt Service[2]:					
Principal	8,184	--	--	--	953,000
Interest	161	--	--	--	630,021
TOTAL EXPENDITURES	$ 578,764,934	$ 611,047,012	$ 633,008,695	$699,083,179	$719,448,168
Excess (Deficiency) of Revenues over Expenditures	$ (19,343,602)	$ (8,497,713)	$ 41,276,243	$(4,675,496)	$(56,352,251)
OTHER FINANCING SOURCES (USES)					
Transfers In	$ 35,686,257	$ 43,814,163	$ 38,072,779	$39,192,371	32,809,381
Loan Proceeds	341,930	25,093,930	--	373,930	--
Transfers Out	(7,992,252)	(15,472,302)	(35,721,468)	(38,355,040)	(42,397,072)
TOTAL OTHER FINANCING SOURCES (USES)	$ 28,035,935	$ 53,435,791	$ 2,351,311	$1,211,261	(9,587,691)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	$ 8,692,333	$ 44,938,078	$ 43,627,554	(3,464,235)	(65,939,942)
Fund Balance - July 1	183,339,080	192,031,413	236,969,491	280,597,045	277,132,810
Residual Equity Transfer	--	--	--	--	--
Fund Balance - June 30	$ 192,031,413	$ 236,969,491	$ 280,597,045	$277,132,810	$211,192,868

(1) Includes MVLF in-lieu. See "Budget – *State Budget* – FY 2004-05 Budget Act."
(2) Excludes debt service funds of the Redevelopment Agency and other debt service funds.
Source: City of San José Comprehensive Annual Financial Reports, FY 2004-05 through FY 2008-09.

Financial and Accounting Information

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The fund financial statements provide information about the City's funds, including fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as non-major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (or expenses) as appropriate. Government resources are allocated and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. Taxpayer-assessed income, gross receipts and other taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized when a liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due. All proprietary funds are accounted for using the accrual basis of accounting. Their income is recognized when it is earned and expenses are recognized when they are incurred.

Insurance and Self-Insurance Programs

The City reassesses its insurance coverage annually. Therefore, the City makes no representations that these insurance coverages will be maintained in the future.

The City self insures for liability (other than for the Airport and the Water Pollution Control Plant), personal injury, and workers' compensation. The City currently maintains an all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. This policy also provides coverage for loss due to business interruption or flood. The City generally does not carry earthquake insurance. A summary of the City's all-risk property insurance is provided in Table 20.

Table 20
CITY OF SAN JOSE
SUMMARY OF CITYWIDE INSURANCE COVERAGE
(For Policy period October 1, 2009 – October 1, 2010)

	Coverage Per Occurrence	Deductible Per Occurrence
Property, including Business Interruption[1]	$ 1 billion	$ 100,000
Flood		
Flood Zones A and V	$ 25 million	$ 500,000[2]
Flood Zone B	$ 50 million	$ 100,000[2]
All Other Flood Zones	$ 100 million	$ 100,000[2]

[1] The policy limit for property damage caused by terrorism is $5 million per occurrence and in aggregate.
[2] Deductible applies per location affected.
Source: City of San José, Human Resources Department - Risk Management.

The City has airport liability policies covering the Airport, which provide a $200 million each occurrence combined single limit for bodily injury and property damage, with a $25 million each occurrence limit for personal injury, currently subject to a per occurrence deductible of $100,000 and in the aggregate. The City also maintains an automobile liability policy covering vehicles associated with the Airport and Water Pollution Control Plant operations. The limit of liability is $1.0 million for each occurrence for liability, and the City is self-insured for physical damage.

Workers' Compensation and Third Party Liability Claims. As noted above, the City is self-insured and self-administered for workers' compensation with claims paid on a "pay as you go" basis. The City budgets for workers' compensation payouts based on prior year payout history. Over the five-year period of FY 2004-05 through FY 2008-09, the City experienced workers' compensation payouts ranging from a low of $15.3 million to a high of $18.1 million, with the payout from the General Fund averaging approximately 88% of the total. The City is also self-insured for third party liability claims other than those involving the Airport and the Water Pollution Control Plant, as described above. All third party liability claims are handled by the City Attorney's Office. There is an emergency reserve fund of $10 million in the General Fund for both liability and workers' compensation claims.

Unemployment Insurance. The City self-insures to the limits required by State statute. The City budgets for each year's anticipated unemployment insurance claims. By policy, the City also funds a reserve of the same amount in each fiscal year.

Airport Coverages For Phase 1 of the Airport Development Program

Airport Owner-Controlled Insurance Program – North Concourse Project. On March 31, 2004, the City bound certain liability insurance coverages for the major components of the North Concourse project through an owner-controlled insurance program from American International Group, now AIU Holdings, Inc. and AIU LLC ("AIU"). An owner-controlled insurance program ("OCIP") is a single insurance program that provides insurance coverage for construction job site risks of the project owner, general contractors, and all subcontractors associated with construction at the designated project site. The specific coverages, limits, and deductibles are summarized in Table 21 below.

Table 21
CITY OF SAN JOSE
SUMMARY OF AIRPORT OWNER-CONTROLLED INSURANCE PROGRAM – NORTH CONCOURSE PROJECT

Coverages	Limit	Deductible Per Occurrence
General Liability	$2 million per occurrence $4 million aggregate	$ 250,000
Workers' Compensation	Statutory	$ 250,000
Employers' Liability	$2 million per accident	$ 250,000
Excess Liability	$150 million	

Source: City of San José.

The City was required to establish a claims loss reserve for the North Concourse Project in the aggregate principal amount of $3.6 million with an additional $300,000 available in a cash working fund. The claims loss reserve funds the deductible amount of up to $250,000 per occurrence, to a maximum loss exposure to the City of $3.9 million.

The North Concourse Project has been completed and the policies expired December 31, 2008. AIU refunded to City $2.5 million of the loss fund in June 2010. AIU will continue to hold the remaining funds in the loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Airport Owner-Controlled Insurance Program – Terminal Area Improvement Program. On March 15, 2007, the City bound certain liability insurance coverages for the major components of the Terminal Area Improvement Program through another OCIP (the "TAIP OCIP") procured through AIU. The terms of the TAIP OCIP require the City to fund a claims loss reserve with AIU in the amount of $8.9 million which AIU has permitted the City to fund incrementally. The claims loss reserve had a balance of $5.9 million as of June 30, 2010. The specific coverages, limits, and deductibles are summarized in Table 22.

The City is obligated to maintain the TAIP OCIP through the term of its design-build contract with Hensel Phelps for the design and construction of the TAIP. The term of the TAIP OCIP is currently set to expire on December 31, 2010. The City's final acceptance of the TAIP is presently scheduled for the end of March 2011. The City has the option to either extend the OCIP or to require Hensel Phelps to provide the required coverages through the date of City's final acceptance of the TAIP, pursuant to the terms of the design-build contract.

Table 22
CITY OF SAN JOSE
SUMMARY OF AIRPORT OWNER-CONTROLLED
INSURANCE PROGRAM – TERMINAL AREA IMPROVEMENT PROGRAM

Coverages	Limit	Deductible Per Occurrence
General Liability	$2 million per occurrence $4 million aggregate	$ 250,000
Workers' Compensation	Statutory	$ 250,000
Employers' Liability	$1 million per accident	$ 250,000
Excess Liability	$200 million	

Source: City of San José.

Builders' Risk and Owner's and Contractor's Protective Professional Indemnity, Including Contractor's Pollution Liability Policies.

On July 23, 2007, the City bound the builders' risk coverage for the TAIP through December 31, 2010 (construction is currently scheduled for final completion by March 31, 2011). The original limit on the coverage was $480,539,721 and the policy was subsequently amended to provide a coverage limit equal to the updated construction estimate amount of $574,135,930.

Two TAIP projects, Terminal B and the Consolidated Rental Car Facility, were added to the City's property insurance coverage as of the date that they were substantially complete, June 30, 2010.

Builder's risk coverage remains in place for the following portions of the TAIP through the following dates:

Terminal A:	October 31, 2010
North Concourse/Baggage:	October 31, 2010
Roadways & Surface Parking:	October 31, 2010

Following substantial completion, the buildings included within the TAIP will be added to the City's property insurance coverage. All of the TAIP projects are estimated to be substantially completed on or before October 31, 2010.

Hensel Phelps, under its design-build agreement with the City for the TAIP, has provided a contractor's protective professional liability insurance ("CPPI") policy specific to its design work on the Terminal Area Improvement Program. The CPPI affords vicarious liability coverage for the City and the contractor's pollution liability policy names the City as an additional insured. The limit on the coverage is $5.0 million.

Litigation and Significant Claims

The City is involved in a variety of pending actions. Additionally, there are a number of claims filed against the City. The pending or threatened litigation, described below, is the most significant in terms of potential risk of loss, using a threshold of $10.0 million.

Significant Litigation

Litigation Related to Watson Park. The City has been sued by fifteen family members alleging damages totaling $19.4 million (the "Plaintiffs"). The Plaintiffs currently or previously have resided at, or have visited, a home in San José that is located adjacent to the City-owned Watson Park. Watson Park, which was formerly a landfill site, has been closed to the public since 2005, due to the discovery of hazardous materials in the park. The City has undertaken hazardous remediation work at Watson Park and at the homes that are located adjacent to Watson Park, including the home involving the Plaintiffs. The Plaintiffs allege that each has suffered injuries as a result of contamination at the subject home. The City is unable to predict the outcome of this litigation.

The City has entered into a settlement agreement with the owners of the other properties located adjacent to Watson Park at which the City performed remediation work.

Water Company Litigation. A private water company in San José sued both the City and the Agency claiming that they have illegally used their respective authority to deny permits, licenses and other authorizations to the water company and its potential customers, in an effort to cause property owners and developers to use the City's Municipal Water System instead of the private water company in two areas of the City. The water company alleged that the City and/or the Agency inversely condemned the water company's property, interfered with its contracts and business opportunities, and violated various provisions of the State Water Code. In 2008 the water company agreed to dismiss its case without prejudice while the parties attempt to settle the matter. If a settlement is not reached by the end of the year, the water company can re-file the lawsuit, or as has occurred the past two years, the parties can extend their agreement. Discovery concerning the water company's alleged damages was not completed before the case was dismissed. If the effort to reach a settlement fails, and the water company re-files its case and ultimately prevails, the City and the Agency are unable to predict the nature or amount of the damages that can be proven.

Significant Tax Refund Claims

Before Measure K was approved by the voters, the City imposed a Telephone utility user's tax ("UUT") on every person in the City using intrastate telephone communication services. The City's former Telephone UUT is described above in Major General Fund Revenue Sources – *Utility Taxes*. The City stopped collection of the former Telephone UUT on March 31, 2009.

The City's former Telephone UUT, like the telephone utility tax imposed by many other jurisdictions, linked imposition of the tax to the Federal Excise Tax ("FET") and was written before the introduction of new communications technologies and changes to federal law. Utility user's taxes imposed by other California cities that contain language similar to that in the City's former Telephone UUT have been the subject of legal controversy. The City's current Telephone UUT removed outdated language that was the subject of lawsuits in other jurisdictions. However, if the City's former Telephone UUT were challenged, the outdated language could subject the City to significant tax refund claims. On May 25, 2006, the U.S. Treasury Department issued Notice 2006-50 in which it announced it was conceding the legal dispute over whether it should be applying the FET to long distance and bundled telephone communication services, where the charges for the services are based on time only and not time and distance. Consequently, effective August 1, 2006, the IRS no longer applies the FET to long distance and bundled services. A bundled service is local and long distance service provided under a single plan that does not separately state the charges for local telephone service.

On June 27, 2006, in response to Notice 2006-50, the City Council adopted an urgency ordinance which went into effect the same day reaffirming its intent to continue its long-standing practice of applying its Telephone UUT in a manner consistent with the IRS's interpretation of the FET prior to the issuance of Notice 2006-50. The City Council subsequently adopted an identical regular ordinance which became effective on September 8, 2006. The ordinances clarified that the City was not changing its application of its Telephone UUT based on the IRS' decision to discontinue taxing long distance and bundled services in order to resolve legal disputes with telephone customers. Rather, the City would continue to tax intrastate local, long distance, and bundled services based on the IRS's interpretation of the FET prior to May 25, 2006. In light of the *AB Cellular* decision discussed above in "Major General Fund Revenue Sources – *Utility Taxes*," there is a risk that if the City's application of its former Telephone UUT were challenged, a court could rule that the actions the City took in June 2006 violate Proposition 218.

Following the Council's actions in June 2006 with respect to the ordinances, on July 24, 2006, the City's Director of Finance gave notice to approximately 200 telecommunication carriers doing business in the City that the City would continue to apply its Telephone UUT to intrastate telephone communication services consistent with the IRS's interpretation of the FET prior to May 25, 2006. One carrier objected to the July 24 notice, but continued to collect and remit the former Telephone UUT to the City, without waiving its rights to seek refunds and other appropriate relief.

On January 29, 2007, the U.S. Treasury Department issued Notice 2007-11, which states that Notice 2006-50 does not affect the ability of state or local governments to impose or collect telecommunication taxes under their respective statutes of government. However, the City is unable to determine at this time what impact, if any, Notice 2007-11 might have on future requests for refunds in connection with revenues derived from the City's former Telephone UUT.

Prior to the IRS's issuance of Notice 2006-50, two telephone customers filed claims with the City seeking refunds of the City's Telephone UUT. Collectively, the two customers seek refunds in the amount of approximately $2.7 million, claiming among other things, that the City's former Telephone UUT was erroneously applied to package or bundled plans where the charges are exempt under the FET and, accordingly, under the City's former Telephone UUT. On June 2, 2008, the City received a third claim from a telephone customer, seeking a refund of the City's former Telephone UUT in an unspecified amount for what appears to be a one year period between May 2007 and May 2008 on the grounds that it was being charged a tax on communication services which were not subject to the FET and, therefore, not subject to the City's former Telephone UUT. In addition, the telephone customer claimed that the City's post IRS Revenue Notice 2006-50 modification of its former Telephone UUT is unenforceable because it violates Proposition 218. On June 1, 2009, the City received another claim from the same telephone customer seeking an additional refund of the City's former Telephone UUT in an unspecified amount for what appears to be a one year period between May 2008 and May 2009 on the grounds set forth above.

To date, the City has not taken action on these claims and the claimants have not pursued litigation against the City. However, lawsuits have been filed challenging the authority of other California cities to impose taxes on package or bundled plans where the charges are exempt under the FET, including lawsuits filed against the City of Los Angeles, the County of Los Angeles, and the City of Long Beach. In light of Federal Court decisions regarding the exemption of bundled telephone service plans from the

FET and the litigation described herein, the City may be presented with additional requests for refunds in connection with its former Telephone UUT.

Even though the City has a tax refund ordinance which limits the refund period to one year, and which expired on March 31, 2010, the courts have not definitively ruled on whether claimants can be limited to a one year refund period or may be able to claim a refund for a three year period (which corresponds to the otherwise applicable statute of limitations).

The City's revenue from the former Telephone UUT (including revenues from landline and wireless calls) for FY 2007-08 and FY 2008-09 (through March 31, 2009) was approximately $45.8 million. At this time, the City is unable to separately estimate the Telephone UUT revenues derived from long-distance and bundled services from local service. Further, the City is unable to estimate the amount of Telephone UUT revenues that may be subject to refund based on the claim that the telephone service provided was not subject to the FET under the former Telephone UUT.

Labor Relations

Overview

The City has eleven recognized employee bargaining units. The representation and agreement dates are shown in Table 23. All bargaining units have current agreements with the exception of the International Association of Firefighters ("Local 230") and the Association of Building, Mechanical and Electrical Inspectors (ABMEI). All of the City's remaining bargaining units have agreements expiring in FY 2010-2011, with the exception of the Confidential Employees' Organization ("CEO") whose agreement expires September 17, 2011.

Table 23
CITY OF SAN JOSE
SUMMARY OF LABOR AGREEMENTS

	Agreement Expiration Date	Full-Time Equivalent Employment
Assoc. of Building, Mechanical and Electrical Inspectors (ABMEI)	12/10/2009	49
Association of Maintenance Supervisory Personnel (AMSP)	06/30/2011	79
Association of Engineers and Architects (AEA)(1)	06/30/2011	191
Association of Legal Professionals (ALP)	06/30/2011	40
Operating Engineers, Local #3 (OE#3)	06/30/2011	762
International Brotherhood of Electrical Workers (IBEW)	06/30/2011	75
City Association of Management Personnel (CAMP)	06/30/2011	347
San José Police Officers' Association (POA)	06/30/2011	1,200
International Association of Firefighters (IAFF, Local 230)	06/30/2010	647
Municipal Employees Federation (MEF)	06/30/2011	1,839
Confidential Employees' Organization (CEO)	09/17/2011	190
Total		5,419

(1) The City has two separate agreements with AEA; the first agreement is related to employees of Unit 41 and Unit 42 and the second agreement is related to employees in Unit 43. Both agreements expire on June 30, 2011.
Source: City of San José, Office of Employee Relations, City Manager's Budget Office.

Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the applicable bargaining unit declares that the negotiations are at impasse. AEA, CEO, IBEW, MEF, and OE#3 have "no strike" clauses during the terms of their respective agreements.

OE#3 has filed charges with the California Public Employment Relations Board alleging various unfair labor practices. At this time, the charges are pending. The City is unable to predict the outcome of these matters.

Labor Costs and Staffing Reductions

During the period from FY 2000-01 through FY 2009-10, the City's total compensation costs have increased significantly. The term "total compensation costs" refers to the City's cost of pay and benefits, including base pay, retirement contributions, health insurance and other benefits. The chart below shows the increase in budgeted costs of total compensation of the City's full-time employees ("FTEs") from FY 2000-01 through FY 2009-10 for all of the City's funds. Although the number of FTEs decreased during this period, the City's average total compensation cost per FTE has increased approximately 63.65% from $73,581 per FTE in FY 2000-01 to $120,418 in FY 2009-10.

Table 24
CITY OF SAN JOSE
CITYWIDE SALARY & BENEFITS[1]

	2000-2001	2009-2010	Difference
BASE PAYROLL	$416,010,420	$582,337,708	39.98%
RETIREMENT BENEFITS	**$63,054,083**	**$137,472,029**	**118.02%**
Federated Retirement	$39,409,193	$72,534,127	84.05%
Police/Fire Retirement	$23,644,890	$64,937,902	174.64%
HEALTH/DENTAL BENEFITS[2]	**$30,317,792**	**$64,197,978**	**111.75%**
Health	$24,856,910	$57,160,932	129.96%
Dental	$5,460,882	$7,037,046	28.86%
OTHER BENEFITS	**$6,608,312**	**$13,566,187**	**105.29%**
(Unemployment & Other Miscellaneous Benefits)			
TOTAL (ALL BENEFITS)	**$99,980,187**	**$215,236,194**	**115.28%**
GRAND TOTAL	**$515,990,607**	**$797,573,902**	**54.57%**
Average Total Cost Per FTE	**$73,581**	**$120,418**	**63.65%**

(1) Does not include worker's compensation cost or overtime. The figures above are budgeted costs and include the cost of providing paid time off, such as vacation, holidays, personal/executive leave, and sick leave, to the extent that paid leave is taken during the fiscal year. The actual salary and benefit costs of individual employees vary.
(2) Health/Dental Benefits are the costs budgeted for the health and dental benefits provided to FTEs.

Source: City of San José Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2000-2001 through 2009-2010 Adopted Budget

In November 2009, the City Council considered the City's projected budget deficit for FY 2010-11 and gave direction that the City's ongoing total compensation costs of City employees must be reduced by 5.0%. Subsequently in March, 2010, in response to a projected increase in the budget deficit for FY 2010-11, the City Council directed that total compensation costs be reduced by 10.0%. The City Council further directed that half of the reduction be an ongoing reduction and the remaining half be compensation savings for FY 2010-11.

As discussed above in *City Budget* -- City's FY 2010-11 Budget, the City reached agreement with six bargaining units , each for a one year term, that resulted in a 10% reduction in total compensation for FY 2010-11 for these bargaining units with 5.0% considered to be ongoing. As each of these agreements expires, the ongoing concessions will be subject to negotiation in future agreements. Additionally, the City Council approved a compensation package for 237 unrepresented employees for FY 2010-11 that includes a 5.0% reduction in total compensation that is intended to be ongoing and an additional 5.4% reduction in base pay for FY 2010-11.

Also as discussed above in *City Budget* -- City's FY 2010-11 Budget, subsequent to the adoption of the FY 2010-11 Budget, the City and the POA entered into an agreement for FY 2010-11 that avoided layoffs of 70 police officers. The reduction in total compensation agreed to by the POA was approximately 3.82%.

The City was unable to reach agreement with CEO, MEF and ABMEI to reduce their total compensation. In the case of CEO and MEF, their agreements are in effect through FY 2010-11 and their members received a 2.0% wage increase in FY 2010-11. The agreement with ABMEI had expired prior to the City Council's directive to achieve a 10.0% reduction in total compensation. After ABMEI and the City failed to reach agreement, the City Council imposed the terms of its Last, Best and Final Offer on ABEMEI that resulted in a 5.0% reduction in total compensation for FY 2010-11. The implementation of the City's Last, Best and Final Offer on ABMEI does not result in a memorandum of agreement between the City and ABMEI.

With the restoration of the 70 police officer positions, the FY 2010-11 Budget reduced the total number of positions by 713 city-wide. 185 FTEs and 21 part-time employees were laid off.

Status of Current Negotiations, Arbitration Proceedings

The City currently is in negotiations with Local 230. The City cannot predict the outcome of these negotiations. The City's Charter specifies the procedures for binding arbitration of labor disputes between the City and its public safety bargaining units. These procedures would apply in the event that the City and Local 230 are unable to reach agreement and impasse is declared. Although the City and Local 230 continue to negotiate, the parties have scheduled arbitration proceedings to commence in November, 2010.

Under the City's Charter, the City and the bargaining unit each select one arbitrator and jointly select a third neutral arbitrator. The neutral arbitrator serves as the Chair of the three-person arbitration board ("Arbitration Board").

The Arbitration Board, at the conclusion of the proceedings, directs each of the parties to submit a last settlement offer on each of the disputed issues. The Arbitration Board is required to decide separately each issue by majority vote by selecting the last offer of settlement on that issue it finds most nearly conforms with those factors traditionally taken into consideration in the determination of wages, hours and other terms of public and private employment. These factors include, but are not limited to: changes in the average consumer price index for goods and services, the wages, hours, and other terms and conditions of employment of other employees performing similar services, and the financial condition of the City and its ability to meet the cost of the award. Because each issue is voted on separately by the Arbitration Board, it is possible that even if the City were to prevail on most of the issues presented, it would still face significant increased costs.

Once the Arbitration Board renders its decision, the Charter provides that the decision is not binding for a ten-day period. During this period, the parties may, by mutual agreement, amend the Arbitration Board's decision. The parties may also agree to extend the ten-day period. Upon the expiration of the ten-day period or the extended period, without amendment by the parties, the Arbitration Board's decision becomes final and binding on the parties. Both parties have responsibility to effectuate the award.

In August 2010, the City Council placed a measure on the November 2, 2010 election to amend the Charter's binding arbitration provisions for its public safety bargaining units. The proposed Charter amendment would, among other things, change the selection process for the neutral arbitrator, the factors to be weighed by the Arbitration Board in making its award, and place limits on the Arbitration Board's authority. The City cannot predict whether the voters will approve the proposed Charter amendment.

Pension Plans

General

All regular full-time City employees participate in one of two public employee retirement plans established pursuant to the City Charter: the Federated City Employees' Retirement System (the "Federated Plan") and the Police and Fire Department Retirement Plan (the "Police and Fire Plan" and together with the Federated Plan, the "Pension Plans"). Both Pension Plans are structured as defined benefit plans in which retirement benefits are based upon salary and length of service. Both Pension Plans pay fixed cost-of-living increases and all or a portion of health and dental insurance premiums for retirees who qualify.

Participation by covered employees in the Pension Plans is mandatory; employees contribute a percentage of their salaries to the applicable Pension Plan, and the City provides funding through contributions equal to a percentage of its full-time employee covered payroll. The total contribution rates for the City and employees are based upon actuarial calculations that take into consideration a number of assumptions, including assumed investment earnings on the valuation assets of the Pension Plans that are used to pay benefits. It should be noted that recent negotiations, discussed in further detail in the "Contribution Rates" sections, have altered the allocation between the City and employees of the actuarial contribution rates calculated for the City and employees. Each Pension Plan is administered by its own Board of Administration, and day-to-day operations are carried out by the City's Director of the Department of Retirement Services and by the Director's staff.

The City Council placed a measure on the November 2, 2010 ballot to amend the pension provisions in the City Charter to (1) allow the City Council, by ordinance, to exclude officers and employees hired on or after the ordinance's effective date from any retirement plans or benefits then in existence and to establish a retirement plan or plans for such officers and employees that do not meet current minimum requirements set forth in the Charter for City retirement plans, and (2) require in the Charter that any new or different retirement plan be actuarially sound.

The information presented hereafter regarding retirement benefits and postretirement healthcare and dental benefits for the Pension Plans excludes assets, liabilities and costs associated with the Supplemental Retiree Benefit Reserves (SRBRs) for the Pension Plans which are separately described below.

The following terms will be used in this section:

Actuarial Accrued Liability (AAL): That portion of the present value of future benefits not provided for by future normal costs. The AAL can be thought of as the value of benefits already earned (under the Pension Plan's funding method) in exchange for employees' past service.

Annual Required Contribution (ARC): The City's actuarially determined contributions to the Pension Plans have two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). The amortization of the UAAL represents the current year's portion of the unfunded actuarial accrued liability costs (i.e., the UAAL) attributable to past years' employment that is charged to the City.

Normal Cost: Normal cost is the portion of the contribution the City will be expected to fund that covers the present value of benefits that are attributable to current service by covered employees under the funding method adopted by each Board. The covered employees also contribute a portion of the normal cost. Currently, the Pension Plans use the entry age normal cost method to calculate the annual normal cost rates of contribution.

Smoothing: When measuring assets for determining the UAAL, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates. Specific smoothing methodologies for the respective plans are discussed below in *Actuarial Valuations* - Smoothing Methodology.

Unfunded Actuarial Accrued Liability: The UAAL is the excess of the AAL over the actuarial value of assets. The UAAL is an estimate based on a series of assumptions, and that calculation utilizes the demographic data of the Pension Plan's membership. The UAAL typically results from investment losses and gains and changes in actuarial assumptions, benefit improvements and other experiences that differ from those anticipated by the actuarial assumptions. The purpose of the UAAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Pension Plan for funding, as of the date of calculation, the accrued costs attributable to currently active, vested terminated (i.e., the deferred members) and retired employees. The funding sufficiency is typically expressed as the ratio of the actuarial valuation of assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, it implies that the plan has a UAAL.

Summary of Pension Plans

A summary of Pension Plan characteristics and actuarial results as of June 30, 2009 is presented in Table 25. The UAAL and Funded Ratio calculations provided in the table exclude health, dental and Supplemental Retiree Benefit Reserves assets and benefits for both Pension Plans. As described in Table 26a below, over the past eight years, both Pension Plans have experienced steady and significant increases in UAAL, primarily attributable to changes in actuarial assumptions, unfavorable demographic experience and unfavorable investment returns (some of which have not yet been recognized under the Pension Plans' "smoothing" methodology). The actuaries for both Pension Plans have concluded that if anticipated increases in the UAAL from recognition of deferred investment losses as of June 30, 2009 are not offset by favorable investment experience after June 30, 2009, then the Pension Plans will require a substantial increase in the City's contribution to bring them back into actuarial balance. In addition, the actuaries for both Pension Plans have concluded that if deferred investment losses are not offset by future investment gains or other favorable experience, the recognition of the deferred losses is expected to have a significant impact on the Pension Plans' future Funded Ratio. The City Auditor's FY 2010-11 work plan includes a Pension sustainability audit intended to assess the long-term sustainability of pension benefits and the potential impact of cost increases on City operations. As of the date of this Remarketing Memorandum, the Auditor has not completed this audit.

Table 25
CITY OF SAN JOSE
SUMMARY OF PENSION PLAN CHARACTERISTICS AND ACTUARIAL RESULTS
As of June 30, 2009[1]

	Federated Plan	Police and Fire Plan
Membership		
Active	4,079	2,083
Deferred[2]	719	74
Retired + Beneficiaries	2,930	1,700
Total	7,728	3,857
Covered Payroll	$ 323,020,387	$ 255,222,552
Calculation of Unfunded Actuarial Accrued Liability (UAAL)[3]		
Actuarial Accrued Liability	$ 2,486,155,231	$ 2,963,482,288
Actuarial Value of Assets	1,756,588,065	2,569,569,225
UAAL	$ 729,567,166	$ 393,913,063
Funded Ratio[3]	70.7%	86.7%
Employer Cost (% of covered payroll)		
Retirement Benefits[4]	23.18%	39.45%[6] [7]
Health and Dental Benefits[5]	6.41	5.44[6]
Total	29.59%	44.89%
Member Cost (% of covered payroll)		
Retirement Benefits[4]	4.54%	9.91%[6]
Health and Dental Benefits[5]	5.76	5.00[6]
Total	10.30%	14.91%

(1) The contribution rates are the result of actuarial valuation reports but do not reflect subsequent contribution shifts associated with various bargaining groups and contribution prefunding described in the *Funding Status and Contribution Rates for Retirement Benefits* for both Pension Plans.

(2) Deferred refers to vested terminated employees.

(3) UAAL and Funded Ratio calculations exclude health, dental, and Supplemental Retiree Benefit Reserves assets and liabilities for both Pension Plans.

(4) Indicated contribution rates apply to FY 2010-11. For the Police and Fire Plan, the rates for the employer and member as shown are a blend of the different rates calculated for Police officer members and Fire department members. Retirement contribution rates for the Federated Plan reflect the first year of a five-year phase-in of the impact on contribution rates of economic assumptions changes adopted for the June 30, 2009 actuarial valuation.

(5) The contribution rates for health and dental benefits only provide partial funding of the liabilities for these benefits. See "*Other Postemployment Benefits* – Contribution Rates for Phase-In of ARC for Federated Plan" and – "Contribution Rate for Phase-In of ARC for Police Members of the Police and Fire Plan" for a discussion of increased contribution rates for health and dental benefits in FY 2010-11.

(6) Represents payroll based weighted average of Board adopted separate rates for Police members and Fire members.

(7) Will be offset by 0.45% on account of a transfer of $1.2 million from the SRBR to the valuation assets which is applied to reduce the City's required contributions, but only for FY 2010-11.

Sources: *Report of the Actuarial Valuation of Federated City Employees' Retirement System as of June 30, 2009, dated March 1, 2010 and accompanying five-year rate phase-in schedules adopted by the Board ; and City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2009, dated February 23, 2010.*

Table 26a
CITY OF SAN JOSE
HISTORICAL UAAL

Fiscal Year	UAAL – Federated Pension Plan	UAAL-Police/Fire Pension Plan
6/30/2001	$ 12,189,000	$ (221,080,000)
6/30/2003	30,972,000	(3,087,000)
6/30/2005	326,916,000	44,342,000
6/30/2007	338,092,000	6,596,000
6/30/2009	729,567,000	393,913,000

Source: City of San José, Retirement Services Department.

As shown in Table 26b below, the Pension Plans' actuaries initiated Health and Dental actuarial studies for both Pension Plans in 2006.

Table 26b
CITY OF SAN JOSE
HISTORICAL UAAL

Fiscal Year	UAAL – Federated Health and Dental Plan	UAAL-Police/Fire Health and Dental Plan
6/30/2006	$ 621,651,000	$ 812,836,000
6/30/2007	520,148,000	620,834,000
6/30/2009	710,884,000	705,987,000[1]

(1) Per draft report dated April 26, 2010, awaiting Board approval.
Source: City of San José, Retirement Services Department.

As shown in Table 27 and Table 28, the City's contribution to the ARC is an increasing percentage of the City's covered payroll. The employee contribution is also growing. It is the City's policy to pay the ARC for its Pension Plans, but it does not currently pay the full ARC for its OPEB obligations.

TABLE 27
CITY OF SAN JOSE
HISTORICAL RETIREMENT AND HEALTH AND DENTAL CONTRIBUTIONS
FEDERATED PLAN

Fiscal Year	Employer Cost (% of covered payroll)	Employee Cost (% of covered payroll)
1999-00	16.52	5.31
2000-01	16.09	4.76
2001-02	17.40	4.96
2002-03	15.20	5.08
2003-04	15.20	5.08
2004-05	17.12	6.06
2005-06	17.12	6.06
2006-07	21.98	7.58
2007-08	21.98	7.58
2008-09	23.56	8.93
2009-10	24.01	9.35

Source: City of San José, Retirement Services Department.

TABLE 28
CITY OF SAN JOSE
HISTORICAL RETIREMENT AND HEALTH AND DENTAL CONTRIBUTIONS
POLICE AND FIRE PLAN

Fiscal Year	Employer Cost (% of covered payroll)		Employee Cost (% of covered payroll)	
1999-00	20.11(1)		10.22(1)	
2000-01	15.70		9.79	
2001-02	15.70		9.79	
2002-03	14.22		10.25	
2003-04	14.22		10.25	
2004-05	24.59		11.16	
2005-06	25.04		11.16	
2006-07	28.51(2)	25.22(3)	11.67(2)	11.26(3)
2007-08	28.90	25.61	11.67	11.26
2008-09	25.80	28.31	11.96	12.40
2009-10	26.89	28.31	12.96	12.40

(1) Combined rate for Police and Fire Members
(2) Rate for Police Members
(3) Rate for Fire Members
Source: City of San José, Retirement Services Department.

Service Retirement Formulas

The service retirement formulas for both the Police and Fire Plan and the Federated Plan are described below.

Federated Plan. An employee may retire at age 55 with five or more years of service or at any age with 30 years of service. The calculation of the retirement annuity is Final Average Salary (defined below) multiplied by 2.5% per year of service (maximum benefit is 75% of Final Average Salary). For Federated

Plan members who retire on or after July 1, 2001, Final Average Salary is the average annual compensation earnable for the highest 12 consecutive months, not to exceed 108% of the second highest 12 consecutive months. For Federated Plan members who retired prior to July 1, 2001, Final Average Salary is the highest compensation earnable during any three consecutive years of service.

Police and Fire Plan. An employee who reaches normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance. For employees who retired prior to February 2, 1996, the allowance is equal to Final Average Salary (defined below) multiplied by 2.5%, multiplied by years of service up to 30 years (maximum benefit is 75% of Final Average Salary.) The allowance formula has been modified three (3) times since 1996. The current monthly allowance for members with less than 20 years of service is Final Average Salary multiplied by 2.5% for each year of service. Effective July 1, 2006, the current monthly allowance for police members of the Plan with 20 or more years of service is equal to Final Average Salary multiplied by 2.5% for the first 20 years of service, plus 4% of Final Average Salary for each year of service thereafter (maximum benefit is 90% of Final Average Salary). For fire members of the Plan with 20 or more years of service, the current monthly allowance (effective July 1, 2008) is equal to Final Average Salary multiplied by 3% for each year of service (subject to a maximum of 90% of Final Average Salary). Final Average Salary is defined as the highest 12 consecutive months of compensation, not to exceed 108% of compensation paid to the employee during the 12 months immediately preceding the last 12 months of service. The Police and Fire Plan Board has proposed a minor amendment to return this definition to its wording in 1992, when the 108% limit only applied to that part of the pension that is based on compensation earned during the last year of service. Final Average Salary excludes overtime pay and expense allowances.

Actuarial Valuations

Prior to FY 2010-11 actuarial valuations for the retirement benefits of both Pension Plans were prepared on a biennial basis resulting in valuations from June 30, 2007 being used for comparative purposes in this document. Commencing with the June 30, 2009 actuarial valuations for the retirement benefits of both Pension Plan, valuations will be prepared on an annual basis, and, in each actuarial valuation for each of the Pension Plans, the corresponding actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Plans, these become the City's and the employees' legally required contribution rates for the fiscal year beginning one year after the valuation date. For example, the recommended contributions contained in each of the actuarial reports for the Pension Plans as of June 30, 2009 apply to contributions by the City and the employees for the fiscal year beginning July 1, 2010.

Actuarially Assumed Investment Rates of Return. The net rate of return that is assumed by each Pension Plan's actuary represents the rate that together with current assets and future contributions would generate sufficient funds to pay benefits. For the June 30, 2009 actuarial valuation, the actuarially assumed net rate of return was 7.75% for Federated and 8.00% for Police and Fire. In addition to the net rate of return necessary to provide sufficient funding for benefits, the administrative cost associated with maintenance of the Pension Plan and the SRBR benefits for each plan is 0.90%. Consequently, the investment portfolio for the Federated Plan and the Police and Fire Plan need to earn at the gross rate of 8.65% and 8.90%, respectively, in order to pay investment manager fees, administrative expenses and benefits not reserved for, such as the Supplemental Retiree Benefit Reserve transfers. Effective with the Federated Plan June 30, 2009 actuarial valuation, the Federated Plan Actuarially Assumed Investment rate of Return is net of 0.30% to take into account Plan provisions for transfers to the Supplemental Retiree Benefit Reserve. The investment portfolio must earn the gross rates in order to have the net rate available for benefit payments, i.e. in order to break even.

The Pension Plans' investment consultants have provided a median rate of return that is consistent with the approved asset allocations for each of the Pension Plans. As shown in Table 29, these return rates are significantly below the actuarially assumed investment rates of return.

Table 29
CITY OF SAN JOSE
ACTUARIALLY ASSUMED INVESTMENT RATES OF RETURN

	Actuarially Assumed Investment Rate of Return (Net)	Actuarially Assumed Investment Rate of Return (Gross)	Investment Consultant Forward Looking Expected Rate of Return (Gross)
Federated Plan	7.75%	8.65%	7.90%[(1)]
Police and Fire Plan	8.00%	8.90%	7.70%[(2)]

(1) Based on Investment Consultant report dated January 2010, using a moderate economic scenario and the approved asset allocation.

(2) Based on Investment Consultant report dated August 2009 using the approved asset allocation.

Source: City of San José, Retirement Services Department.

"Smoothing" Methodology. When measuring assets for determining the UAAL, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates. If in the one-year period prior to the annual actuarial valuation the actual net investment return on the Pension Plan's market value of assets is lower or higher than the actuarial assumed net rate of return (7.75% for the Federated Plan and 8.00% for the Police and Fire Plan), then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. This results in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

For the Police and Fire Plan, past practice has been to limit the smoothed assets to be no greater than 120% and no less than 80% of the market value of assets. The market value range from 80% to 120% is referred to as a "market value corridor" and is currently only applied to the Police and Fire Plan. Under this practice, any investment gains or losses that would cause the smoothed assets to fall outside of this 80-120% market value corridor would be recognized immediately rather than be smoothed over the next five years. As of February 4, 2010, the Police and Fire Plan Board increased the market value corridor to 70-130% only for the June 30, 2009 valuation.

As of June 30, 2009, as a consequence of smoothing, there were approximately $445.0 million ($419.7 pension benefits plus $25.2 health and dental benefits) in deferred losses yet to be realized for the Federated Plan for both pension and health and dental benefits. Similarly for the Police and Fire Plan, there were approximately $613.3 million in deferred losses ($600.5 million pension benefits plus $12.8 million health and dental benefits). The $613.3 million of deferred losses for the Police and Fire Plan excludes approximately $45.0 million of deferred losses resulting from the initial actuarial value of assets being calculated at 132% of the market value of assets, requiring those losses to be recognized immediately in the June 30, 2009 valuations. It is anticipated that future actuarial valuations will incorporate investment portfolio performance and both gains and losses will be "smoothed" as described above. If no other actuarial gains or losses are realized over the next four years, the smoothing in of the $419.7 million in deferred asset losses for the Federated Plan will result in an increase in annual required contributions of $23.2 million. If the $600.5 million in deferred asset losses for the Police and Fire Plan were to be recognized immediately, it would result in an increase in annual required contributions of $50.3 million.

Amortization Method and Period. Various plans use different amortization periods for paying off (or "amortizing") a UAAL. Prior to June 30, 2009, the Federated Plan used a 30-year open or rolling amortization period which meant that in each actuarial valuation, the entire UAAL is reamortized over a new 30-year period following each valuation period. Subsequent to June 30, 2009, the UAAL for the Federated Plan as of June 30, 2009 will be amortized over a 30-year closed period. Changes in the UAAL in future years will be amortized over a 20-year closed period, with a separate amortization schedule set up for each change in UAAL in each year. With respect to all unfunded liabilities attributable to periods on or before June 30, 2003, the Police and Fire Plan uses a closed amortization period which ends on June 30, 2017.

With respect to all unfunded liabilities attributable to periods after June 30, 2003, the Police and Fire Plan amortizes such unfunded liabilities through a layered amortization method in which unfunded liabilities experienced between annual valuation dates are amortized over a period ending 16 years following each applicable valuation date. The contribution to the UAAL as of the end of a given year (as reflected in an actuarial valuation report) is amortized as a level percentage of payroll.

Actuarial Methods and Assumptions. Investors are cautioned that, in considering the amount of the UAAL, the funded ratio, and the calculations of normal cost as reported by the Pension Plans and the resulting amounts of required contributions by the City, this is "forward looking" information. Such "forward looking" information reflects the judgment of the Board of Administration of the respective Pension Plans and their actuaries as to the amount of assets which the Pension Plan will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, existing retired employees, and their beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the Pension Plans. The actuarial methods and assumptions could be changed by the Boards of the respective Pension Plans at anytime. Such changes could cause the City's obligations to the Pension Plans to be higher or lower in any particular year. The more significant actuarial methods and assumptions used in the calculations of employer and employee contributions for the retirement benefits of each Pension Plan are summarized in Table 30.

Table 30
CITY OF SAN JOSE
SUMMARY OF KEY ACTUARIAL METHODS AND ASSUMPTIONS
As of June 30, 2009

	Federated Plan	Police and Fire Plan
Actuarial Methods		
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percentage of Payroll	Level Percentage of Payroll
Amortization Period	30/20 layered closed	Varies(1)
Asset Valuation Method	5-year Smoothed Market (without corridor)	5-year Smoothed Market (with an 80%-120% corridor, adjusted to 70%-130% only for the June 30, 2009 valuation)
Actuarial Assumptions		
Investment Annual Net Rate of Return(2)	7.75%	8.00%
Annual Fixed Cost-of-Living Adjustments for Retirees	3.0%	3.0%
Salary Increases	Salary increase rates are based on years of service as described in the Federated Experience Study as follows: The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.00%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service.	Salary increase rates are based on years of service as described in the Police and Fire Experience Study as follows: The base annual rate of salary increase is comprised of a 3.50% inflation rate plus 0.75% for wage inflation for a total rate of 4.25%. This is added to a rate increase for merit/promotion set at 5.50% for the first five years of service; 2.50% for years 6 and 7; and 1.75% for year 8 and beyond.
Active Service, Withdrawal, Death, Disability Retirement	Based on June 30, 2009 Experience Study.	Based on the June 30, 2009 Experience Analysis.
Postretirement Mortality (non-disabled retirees)	1994 Group Annuity Mortality Table (sex distinct), set back three years for males and one year for females.	RP-2000 combined healthy mortality table for males with no collar adjustment, projected for 10 years, set back four years. RP-2000 combined healthy mortality table for females with no collar adjustment, projected for 10 years, with no age set-back.

(1) With respect to all unfunded liabilities attributable to periods on or before June 30, 2003, the Police and Fire Plan uses an amortization period which ends on June 30, 2017. With respect to all unfunded liabilities attributable to periods after June 30, 2003, the Police and Fire Plan amortizes such unfunded liabilities through a layered amortization method in which unfunded liabilities experienced between annual valuation dates are amortized over a period ending 16 years following each applicable valuation date.

(2) The Retirement Services Department has clarified that, for both Pension Plans, the Investment Annual Rate of Return is a net rate of return and does not take into account the amounts necessary to fund the administrative, operating expenses or the investment management fees; and for the Police and Fire Plan the Investment Rate of Return also does not take into account Plan provisions for transfers to the Supplemental Retiree Benefit Reserve.

Sources: Report of the Actuarial Valuation of Federated City Employees' Retirement System as of June 30, 2009, dated March 1, 2010; and City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2009, dated February 23, 2010.

Funding Status and Contribution Rates

A description of the current funding status of the retirement benefits provided by both Pension Plans is summarized below. As set forth above, the funding ratio for each Pension Plan does not take into account the assets and liabilities related to health and dental benefits or the SRBR for such Pension Plan. The Schedules of the Funding Progress for both Pension Plans are set forth in the Required Supplementary Information Section of the City's Basic Financial Statements for the Fiscal Year Ended June 30, 2009. However, it is important to note that the Funding Progress schedules referred to in the City's Basic Financial Statements for the Fiscal Year Ended June 30, 2009, attached as Appendix B to this Remarketing Memorandum, reflect actuarial data as of June 30, 2007. The most recent actuarial valuations for the Federated Plan and the Police and Fire Plan, as of June 30, 2009, represent the current data available for the Funding Progress for both Pension Plans.

The Federated Plan Retirement Benefits. The most recent actuarial valuation of the Federated Plan, as of June 30, 2009, was performed by Gabriel, Roeder, Smith & Company (the "Federated Plan Actuary") and summarized by the Federated Plan Actuary in its report dated March 1, 2010, entitled: "Report of the Actuarial Valuation of Federated City Employees Retirement System as of June 30, 2009" ("2009 Federated Actuarial Report"). In the 2009 Federated Actuarial Report, the Federated Plan Actuary concluded that the funded ratio for the actuarial value of assets for the Federated Plan as of June 30, 2009, was 70.70%, down from 82.80% as of June 30, 2007. This decrease in the funded ratio was primarily attributable to worse-than-expected investment returns on the actuarial assets and changes in actuarial assumptions. Since 1993, the funded ratio has ranged from the current low of 70.7% as of June 30, 2009, to a high of 98.9% as of June 30, 2001. As of June 30, 2009, the Federated Plan had a UAAL of approximately $729.6 million as compared to a UAAL of $338.1 million in the Actuarial Report completed as of June 30, 2007. The Federated Plan Actuary noted that if the UAAL continues to have large increases that are not offset by assets in trust, and if the actuarially required contributions are not made, then the plan will require either an increase in assets or a reduction in liabilities to bring it back into actuarial balance. As of June 30, 2009, the Federated Plan had an actuarial value of assets, exclusive of assets in the health and dental reserve and the SRBR reserve, equal to $1,756.6 million and actuarial accrued liabilities of $2,486.2 million. For the period ending June 30, 2009, the funded ratio based on the market value of assets was 54.60%, down from 90% as of June 30, 2007. The Federated Plan has deferred losses of $419.8 million (31.4% of market value of assets) as of June 30, 2009. If deferred losses aren't offset by future investment gains or other favorable experience, the recognition of the $419.7 million in deferred market losses is expected to have a significant impact on the Plan's future Funded Ratio and contribution rate requirements.

Federated Experience Study. On November 3, 2009, the Federated Plan Actuary delivered its Report of an Experience Investigation (the "Federated Experience Study") and reported findings and recommendations from its investigation of the experience of the Federated Plan during the period from July 1, 2003, through June 30, 2009. Based on this investigation, the Federated Plan Actuary recommended several changes to the actuarial assumptions used to prepare the retirement valuation. The current assumptions were approved by the Board of the Federated Plan and implemented in the 2009 Federated Actuarial Report. The actuarial assumption changes approved by the Board included phasing in the impact on contribution rate of the following over a five year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of these economic assumption changes was to increase the actuarial accrued liability by $141.5 million. The Board also approved immediate implementation of demographic assumption changes to include a setback of three years for males and one year for females for post-retirement mortality calculations. The impact of these changes was to increase the actuarial accrued liability by $87.3 million.

Contribution Rates. Table 31 below summarizes the contribution rates for both the City and the employee members of the Federated Plan for both retirement benefits and health and dental care benefits, as recommended in the Federated Actuarial Report dated as of June 30, 2007, and adopted by the Federated Board for FY 2008-09 and FY 2009-10. Table 31 also summarizes the current contribution rates, adopted by the Federated Retirement Board for FY 2010-11, based on the 2009 Federated Actuarial Report, and the Board's decision to adopt a five-year phase in period for the impact of the economic assumption changes that were incorporated in the 2009 Federated Actuarial Report. The retirement contribution rates shown reflect the first year of the phase in of the impact of economic assumption changes.

In addition, after the retirement contribution rates were approved by the Federated Board, several of the City's bargaining units agreed to make additional employee contributions in order to reduce the City's required contributions toward the Federated Plan's UAAL. In June 2010, the City reached agreements with AEA, CAMP, OE#3, AMSP and, IBEW to have employees covered under these agreements make additional one-time retirement contributions, equal to 10.83% of pensionable compensation, effective June 27, 2010 through June 25, 2011. These bargaining units also agreed to make a portion of these additional contributions, ranging from 7.30% to 7.75% of pensionable compensation, continue on an on-going basis. However, as the AEA, CAMP, OE#3, AMSP and IBEW collective bargaining agreements will expire on June 30, 2011, the on-going contributions will be subject to renegotiation. These additional employee contributions will be made on a pre-tax basis pursuant to IRS Code Section 414(h)(2) and will be subject to withdrawal, return and redeposit in the same manner as any other employee contributions.

Except as noted in the previous paragraph for additional employee contributions that were agreed to in June 2010 in order to reduce the City's required contributions toward the Federated Plan's UAAL, required annual contributions under the Federated Plan are allocated between the City and the Members of the Federated Plan as follows: (a) the Current Service Rate (the cost of funding liabilities for service after July 1, 1975), as required by the City Charter, is shared 8/3 between the City and the Members; (b) the Current Service Deficiency Rate (the amortization of the funding deficiency for service after July 1, 1975, not covered by the Current Service Rate) is borne entirely by the City; (c) the Prior Service Rate (the difference in costs between the benefit structure in place prior to July 1, 1975, and the benefit structure implemented as of July 1, 1975, for service performed before July 1, 1975, including any cost for gains or losses associated with liabilities for service before July 1, 1975) is shared 58/42 between the City and the Members; (d) the Early Retirement Incentive Program Rates (the cost for funding additional benefits granted to certain retiring employees) is borne entirely by the City; and (e) the Reciprocity Rate (the cost of prefunding the liability associated with the adoption of reciprocal benefits with other public pension plans) is borne entirely by the City.

Prior to July 1, 2009, required annual contributions for health and dental insurance under the Federated Plan represent the cost for funding, as a level percentage of payroll, based upon a 15-year projection of premiums. After June 30, 2009, required annual contributions for health and dental insurance under the Federated Plan represent the cost to phase in to full pre-funding of the costs over a five year period. For health insurance, the cost is shared 50/50 by the City and the Members, and for dental insurance, the cost is shared 8/3 by the City and the Members. See "Other Postemployment Benefits – Contribution Rates for Phase-In of ARC for Federated Plan" for a discussion of increased contribution rates for health and dental benefits in FY 2009-10.

The required contributions rates determined by the Federated Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since FY 2008-09 to "prefund" all or part of its total annual required contributions to the Plan at the beginning of each fiscal year and the Plan's Actuary applies an interest discount to the required contributions to account for the fact that contributions are made at the beginning of the year instead of throughout the year. The "prefunded" annual contributions are made on the basis of estimated bi-weekly pay for the fiscal year and are trued up at the end of the fiscal year based on actual bi-weekly payroll.

Table 31
CITY OF SAN JOSE
FEDERATED CITY EMPLOYEES' RETIREMENT PLAN
CONTRIBUTION RATES[(1)]
(As Percentage of Covered Payroll)

	June 30, 2007	June 30, 2009
Employer Cost[(2)]		
Retirement		
Normal Cost Rate	11.41%	12.35%
Rate of Contribution to UAAL	6.90	10.83
Total Retirement	18.31%	23.18%
Health and Dental[(3)]	5.25	6.41
	23.56%	29.59%
Member Cost[(2)]		
Retirement	4.28%	4.54%
Health and Dental[(3)]	4.65	5.76
	8.93%	10.30%
Total Cost	32.49%	39.89%

(1) The contribution rates are the result of actuarial valuation reports but do not reflect subsequent contribution shifts associated with various bargaining groups and contribution prefunding described in the *Funding Status and Contribution Rates.*

(2) Represents a percentage of covered payroll. The total covered payroll for employees covered by the Federated Plan as of June 30, 2007 was $291,404,606 and as of June 30, 2009, was $323,020,387.

(3) The contribution rates for health and dental benefits only provide partial funding of the liabilities for these benefits. See "*Other Postemployment Benefits* – Contribution Rates for Phase-In of ARC for Federated Plan" and – "Contribution Rate for Phase-In of ARC for Police Members of the Police and Fire Plan" for a discussion of increased contribution rates for health and dental benefits in FY 2010-11.

Sources: Reports of the Actuarial Valuation of the San José Federated City Employee's Retirement System as of June 30, 2007, dated January 8, 2008 and June 30, 2009, dated March 1, 2010.

Police and Fire Department Retirement Plan. The most recent actuarial valuation of the Police and Fire Plan, as of June 30, 2009, was performed by The Segal Company (the "Police and Fire Plan Actuary" or "Segal") and summarized by the Police and Fire Plan Actuary in its report dated February 23, 2010 (the "2009 Police and Fire Report"). In the 2009 Police and Fire Report, the Police and Fire Plan Actuary concluded that the funded ratio of the Police and Fire Plan as of June 30, 2009, was 86.7%, down from 99.7% as of June 30, 2007. This decrease in the funded ratio is primarily attributable to changes in actuarial assumptions, unfavorable demographic experience and unfavorable investment returns during the two year period ended June 30, 2009. Over the last ten years, the funded ratio has ranged from the current low of 86.7% as of June 30, 2009, to a high of 114.8% as of June 30, 2001, taking into account all benefit improvements that have occurred over this time period.. As of June 30, 2009, the Police and Fire Plan had a UAAL of approximately $393.9 million as compared to the UAAL of approximately $6.6 million in the Actuarial Report completed as of June 30, 2007. The increase in UAAL is primarily the result of investment losses, changes to actuarial assumptions and differences in actual experience from anticipated. As of June 30, 2009, the Police and Fire Plan had an actuarial value of pension assets equal to approximately $2.569 billion, not including the Police and Fire SRBR, and actuarial accrued liabilities of approximately $2.963 billion. As of June 30, 2009, the Police and Fire Plan had a total unrecognized investment loss of approximately $613.3 million ($600.5 million pension benefits plus $12.8 million health and dental benefits) for both pension and health and dental benefits, after application of the 130% market value corridor, that had not yet been recognized by the asset smoothing method. For the period ending June 30, 2009, the funded ratio based on the market value of assets was 66.4% for the Pension Plan, down from 111.9% as of June 30, 2007. The Police and Fire Plan Actuary noted that deferred losses represent 30% of the market value of assets as of June 30, 2009. If deferred losses aren't offset by future investment gains or other favorable experience, the recognition of the $613.3 million in deferred market losses is expected to have a significant impact on the Plan's future funded percentage and contribution rate requirements.

Police and Fire Experience Study. On October 26, 2009, the Police and Fire Plan Actuary issued its Actuarial Experience Study (the "Police and Fire Actuarial Experience Study") for the period July 1, 2005 through June 30, 2009. The study utilized census data prepared for the four-year period ending June 30, 2009. Based on this investigation, the Police and Fire Plan Actuary recommended several changes to the actuarial assumptions used to prepare the retirement valuation. The actuarial recommended demographic (non-economic) assumption changes were approved by the Police and Fire Plan Board on February 4, 2010. Approved changes included establishing a higher retirement rate for Police, higher disability rates for Fire, and an increase of one year for life expectancy for mortality rates, among other changes. Combined the assumption changes accounted for an increase in the actuarial accrued liability of $145.4 million as of June 30, 2009. In addition to increases in the actuarial accrued liability from assumption changes, losses associated with actuarial experience included a net loss from investments of $138.4 million, a loss of $106.5 million for differences in actual experience, and a loss of $7.0 million for data corrections. Recent experience over the last few experience study periods has indicated that demographic assumptions should have been more conservative in many areas, which has resulted in additional unfunded actuarial liabilities and plan costs as the experience has emerged.

Contribution Rates. The contribution rates for both the City and the members of the Police and Fire Plan for both retirement and health and dental benefits, are summarized below in Table 32. In August 2010, the City reached agreement with the POA to require Police members of the Police and Fire Plan to make additional retirement contributions of 5.25% of pensionable compensation, effective June 27, 2010 through June 25, 2011. These additional employee contributions are in addition to the employee retirement contribution rates approved by the Police and Fire Plan Board. The additional employee contributions will be applied to reduce the City's required contributions toward the Plan's UAAL. These additional employee contributions will be made on a pre-tax basis pursuant to IRS Code Section 414(h)(2) and will be subject to withdrawal, return and redeposit in the same manner as any other employee contribution.

The Police and Fire Plan Actuary has determined that the additional 5.25% employee contributions will offset an equivalent 5.21% City required contribution rate, due to the estimated portion of the additional employee contributions which will be paid as refunds of employee contributions upon employee termination.

Except as noted in the above discussion of additional Police employee contributions that were agreed to in August 2010 in order to reduce the City's required contributions toward the Plan's UAAL, required annual contributions under the Police and Fire Plan consist of (i) the Normal Cost (the annual cost that if paid annually from a Member's first year of membership through the year of retirement would accumulate to the amount necessary to fully fund the Member's retirement benefits, assuming no actuarial gains or losses) and (ii) the cost to pay a portion of the UAAL. The Normal Cost, which is shared 8/3 between the City and the Members, has been calculated using an assumed investment earnings rate of 8%, across-the-board salary increases of 0.75% in addition to merit and promotion increases, inflation at the rate of 3.5% per annum, together with other actuarial assumptions adopted by the Police and Fire Board.

Required annual contributions for health and dental insurance under the Police and Fire Plan (including cost of Medicare Part B reimbursement up to the maximum subsidy for health premiums) are calculated as follows. The cost for health insurance is shared equally by the City and the Members; the cost of dental insurance is shared 75/25 between the City and the Members. Prior to July 1, 2009, contributions represented the cost for funding based upon a cash flow projection of expected premium subsidy cost and future payroll over the next 10 years. After June 30, 2009, required annual contributions for health and dental insurance for Police employees represent the cost to phase in to full pre-funding of the costs over a five year period (subject to certain constraints); for Fire employees, both City and employee contributions continue to be based on the ten year cash flow projection. See "Other Postemployment Benefits – Contribution Rate for Phase-In of ARC for Police Members of the Police and Fire Plan" for a discussion of increased contribution rates for health and dental benefits in FY 2008-09.

The required contributions rates determined by the Plan's Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since FY 2008-09 to "prefund" all or part of its total annual required contributions to the Plan at the beginning of each fiscal year and the Plan's Actuary applies a discount to the required contributions to account for the fact that contributions are made at the beginning of the year instead of throughout the year. The "prefunded" annual contributions are made on the basis of estimated bi-weekly pay for the fiscal year and are trued up at the end of the fiscal year based on actual bi-weekly payroll.

Table 32
CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN CONTRIBUTION RATES
(As Percentage of Covered Payroll)

	June 30, 2007[1]	June 30, 2009[2]
Employer Cost[4]		
Retirement		
Normal Cost Rate	22.02%	26.24%
Rate of Contribution to UAAL	0.46	13.21
Total Retirement[3]	22.48%	39.45%[5]
Health and Dental[6]	4.19	5.44
Total City	26.67%	44.89%
Member Cost[4]		
Retirement[3]	8.33%	9.91%
Health and Dental[6]	3.78	5.00
Total Member	12.11%	14.91%
Total Cost	38.78%	59.80%

(1) Contribution rates were calculated based on the actuarial assumptions used to prepare the Police and Fire Report as of June 30, 2007. The rates shown were approved by the Board of Administration for the Police and Fire Plan on June 5, 2008.
(2) The contribution rates are the result of actuarial valuation reports but do not reflect subsequent contribution shifts associated with various bargaining groups and contribution prefunding described in the *Funding Status and Contribution Rates for Retirement Benefits* for both Pension Plans.
(3) For the Police and Fire Plan, the rates for the employer and member as shown are a blend of the different rates calculated for police officer members and fire department members.
(4) Represents a percentage of payroll. Total covered payroll was $227,734,449 as of June 30, 2007 and $255,222,552 as of June 30, 2009.
(5) Will be offset by 0.45% on account of a transfer of $1.2 million from the SRBR to the valuation assets which is applied to reduce the City's required contributions, but only for FY 2010-11.
(6) The contribution rates for health and dental benefits only provide partial funding of the liabilities for these benefits. See "*Other Postemployment Benefits* – Contribution Rates for Phase-In of ARC for Federated Plan" and – "Contribution Rate for Phase-In of ARC for Police Members of the Police and Fire Plan" for a discussion of increased contribution rates for health and dental benefits in FY 2010-11.

Source: City of San José Police and Fire Department Retirement Plan Actuarial Valuation Reports as of June 30, 2007, dated January 31, 2008 and as of June 30, 2009, dated February 23, 2010.

Supplemental Retiree Benefit Reserves

Both Pension Plans include a Supplemental Retiree Benefit Reserve ("SRBR"). The terms of each SRBR are described below.

Federated SRBR. Within the assets of the Federated Plan, there is a Supplemental Retiree Benefit Reserve (the "Federated SRBR"). As of June 30, 2009, $19.786 million were on deposit in the Federated SRBR. After the end of each fiscal year, an amount equal to the investment earnings attributable to the SRBR balance is transferred to the SRBR, using the lesser of the actuarially assumed rate or the actual rate of return earned by the retirement fund; then the Board of Administration of the Federated Plan determines the amount of excess earnings, if any (i.e., earnings of the retirement fund after accounting for any investment losses recognized during the year and any administrative costs, and after crediting interest and income to the various accounts and reserves). To the extent there are excess earnings, 90% of the excess earnings are transferred to the Plan's General Reserve, and 10% of the excess earnings are transferred to the Federated SRBR. At the end of each fiscal year, to the extent that the amount on deposit in the Federated SRBR satisfies certain thresholds, the Federated Plan pays each retiree a lump-sum payment as a supplemental benefit. For the fiscal year ended June 30, 2009, the total amount of interest credited to the SRBR was $0 and no amount was available for distribution during FY 2009-10.

Police and Fire SRBR. Within the assets of the Police and Fire Plan, there is a Supplemental Retiree Benefit Reserve (the "Police and Fire SRBR"). As of June 30, 2009, $32.3 million was on deposit in the Police and Fire SRBR. The Police and Fire SRBR was originally funded through a one-time transfer from the valuation assets of the Police and Fire Plan calculated as of the end of the fiscal year ending June 30, 1999, in the amount of $19,110,300. After that transfer, the Police and Fire SRBR is funded from certain earnings (calculated on a smoothed actuarial basis as described previously) of the Police and Fire Plan, as follows. After the end of each fiscal year, an amount equal to the investment earnings attributable to the SRBR balance is transferred to the SRBR; then the Board of Administration for the Police and Fire Plan determines the amount of excess earnings, if any (i.e. earnings of the retirement fund after accounting for any investment gains and losses recognized during the year and any administrative costs, and after crediting interest to other accounts and reserves at the Board adopted actuarially assumed rate of return). Ninety percent of excess earnings are allocated and included as valuation assets, and the remaining 10% are transferred to the Police and Fire SRBR. At the end of each calendar year, from the earnings credited to the Police and Fire SRBR, the Police and Fire Plan pays each retiree and each person receiving survivor benefits, a lump-sum payment as a supplemental benefit. For the fiscal year ended June 30, 2009, the total amount of interest transferred to the Police and Fire SRBR was $0 and no amount was available for distribution during FY 2009-10. In addition, if City contributions are increased due to poor investment returns, 10% of the City's increased contributions for the first 12 months after the increase in rates is transferred (certain restrictions apply to the maximum amount transferrable) from the SRBR to the valuation assets and is applied to reduce the City's required contributions. As of June 30, 2009, $1.2 million was transferred from the SRBR to the valuation assets and applied to reduce the City's required contributions on account of this provision.

Other Postemployment Benefits

Overview. In April 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for postemployment healthcare and other nonpension benefits ("OPEB") plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 became effective for the City's OPEB Plans for the fiscal year ending June 30, 2007.

Additionally, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial accrued liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement No. 45 became effective for the City's fiscal year ending June 30, 2008.

Both Pension Plans provide eligible retirees with both health and dental benefits ("Health and Dental Benefits"). For health benefits, the Pension Plans pay that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for City employees; if the retiree elects a medical plan that is not the lowest-priced plan, the eligible retiree or survivor pays the difference between the portion paid by the applicable Pension Plan and that charged by the medical care provider. In the case of dental benefits, both Pension Plans pay the entire premium.

For the Federated Plan, per the San José Municipal Code, the City and the active employee members of the Federated Plan share the cost of health benefits at a ratio of 50/50, and, with respect to the dental benefits, they share that cost at a ratio of 8/3. For the Police and Fire Plan, per the San José Municipal Code, the City and the active employee members of the Police and Fire Plan share the cost of health benefits at a ratio of 50/50 and, for dental benefits, they share that cost at a ratio of 75/25.

Funding Policy. Until the City entered into agreements with various bargaining groups as described below, contributions for the Health and Dental Benefits for both the City and the participating employees of both Pension Plans were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due, over the next 10 years for the Police and Fire Plan, and over the next 15 years for the Federated Plan.

Increased contribution rates for Health and Dental benefits for some, but not all of, the members of both Pension Plans that became effective in FY 2009-10, are discussed below in Contribution Rates for Phase-In of ARC for Federated Plan and Contribution Rates for Phase-In of ARC for POA Members of the Police and Fire Plan. The contribution rates for the Fire members of the Police and Fire Plan continue to be calculated per the methodology discussed above.

Postemployment Healthcare Plan Valuations. The City's Federated Plan engaged the Federated Plan Actuary to perform an actuarial valuation, as of June 30, 2009, of the Federated Retiree Health and Dental Care Plan. The actuarial accrued liability as of June 30, 2009 is $796.4 million with $85.5 million in assets resulting in a UAAL of $710.9 million, with a plan funded ratio of 10.7%. The annual required contribution ("ARC") calculated in accordance with GASB, and based on a 6.7% discount rate is $38.6 million.

The City's Police and Fire Plan engaged its actuary to perform an actuarial valuation, as of June 30, 2009, of its Health and Dental Benefits. The actuarial accrued liability as of June 30, 2009 is $761.6 million with $55.6 million in assets resulting in a UAAL of $706.0 million, with a funded ratio of 7.30%. The annual required contribution ("ARC") calculated in accordance with GASB, and based on a 6.7% discount rate is $48.8 million.

Actuarial assumptions used for the postemployment healthcare plan valuations are generally the same as are used for the pension plan valuations, but also include assumptions with respect to future healthcare utilization and inflation. Actuarial methods are generally the same, except for the use of a 30-year closed group amortization period for the Federated Health and Dental Benefits Plan and a 30-year open (non-decreasing) amortization period for the Police and Fire Health and Dental Benefits Plan.

The City implemented GASB 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year for both Pension Plans. As reported in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009 (the "2009 CAFR"), the net OPEB obligation for the Federated Plan was $44.7 million. The net OPEB obligation for the Police and Fire Plan as reported in the 2009 CAFR was $84.5 million. However, it is important to note that the net OPEB obligation reported in the City's CAFR for the Fiscal Year Ended June 30, 2009, reflect the obligations as of June 30, 2007.

Phase-In Funding of the ARC for Both Healthcare Plans. In 2007 and 2008, the City engaged in a process to determine whether to implement a policy to fully pre-fund the ARC as calculated under GASB 45 for each of the Healthcare Plans. In connection with this process, the City retained outside counsel to provide advice regarding the legal restrictions on making changes to the Health and Dental Benefits of both retirees and active employees. In a March 2008 memorandum to City employees and retirees, the City Manager announced that because the Health and Dental Benefits can be considered a "vested" benefit, at such time the City Administration would not be recommending a change in these benefits as specified in the Municipal Code.

Agreements Related to Federated Plan's Health and Dental Benefits. In April, 2009, the City reached agreements with ABMEI, AEA, AMSP, CAMP, IBEW, MEF, and CEO to phase in full pre-funding of the ARC over a five year period. The terms of these agreements will also apply to unrepresented employees. These agreements provide that the initial unfunded retiree healthcare liability will be fully amortized over a thirty year period so that it will be paid by June 30, 2039. From time to time, the Federated Plan's Actuary will update the contributions required to fully pre-fund the ARC by such date.

The agreements also provide that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee contributions and the City cash contribution rate will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year. Notwithstanding these limitations on incremental increases, the agreements further provide that by the end of the five year phase-in the City and the members "shall be contributing the full Annual Required Contribution in the ratio currently provided" in the relevant sections of the San José Municipal Code.

Agreement Related to Police and Fire Plan's Health and Dental Benefits. In February 2009, the City reached an agreement with the POA to fully pre-fund the ARC with respect to the police members over a five year period, subject to the limitations described below. The agreement provides that the initial unfunded retiree healthcare liability will be fully amortized over a thirty year closed (decreasing) period starting July 1, 2009 so that it will be paid by June 30, 2039. From time to time, the Police and Fire Plan's actuary will update the contributions required to fully pre-fund the liabilities for retiree healthcare. As of the date of this Remarketing Memorandum, no agreement has been reached with IAFF, Local 230 to fully pre-fund the ARC with respect to the Fire members.

The agreement with the POA provides that the five year phase-in of the annual required contributions for police members in the Police and Fire Plan will not have an incremental increase of more than 1.25% of pensionable pay in each fiscal year for the employee contributions and City cash contribution will not have an incremental increase of more than 1.35% of pensionable pay in each fiscal year. If at any time the plan member cash contribution rate exceeds 10% of pensionable pay or the City cash contribution rate exceeds 11% of pensionable pay (excluding implicit subsidy as discussed below), the City and the POA will meet and confer on how to address any retiree healthcare contributions above 10% of pensionable pay for plan members or 11% of pensionable pay for the City. Such discussions will include alternatives to reduce retiree healthcare costs. These limitations may preclude full pre-funding of the ARC within the five year period.

Contribution Rates for Phase-In of ARC for Federated Plan. On March 11, 2010, the Federated Plan's Board adopted a policy that the contribution rates for the City and the members of the Federated Plan will be phased in to meet full pre-funding of the ARC. The approved contribution rates, expressed as a percentage of payroll, are 5.76% for the employees and 6.41% for the City for FY 2010-11.

Contribution Rates for Phase-In of ARC for Police Members of the Police and Fire Plan. On May 6, 2010, the Police and Fire Board approved new contribution rates for the City and the Police and Fire members of the Police and Fire Plan. These rates are effective for FY 2010-11. Contribution rates for subsequent fiscal years will require approval by the Police and Fire Board.

The approved contribution rates for Police employees, expressed as a percentage of payroll, are 5.76% for the employees and 6.26% for the City. The contribution rates were based on the 2009 valuation of the Police and Fire Plan's Health and Dental Benefits prepared by Segal.

The approved contribution rates for Fire employees, expressed as a percentage of payroll, are 3.61% for the employees and 3.92% for the City. The contribution rates were based on the 2009 valuation of the Police and Fire Plan's Health and Dental Benefits prepared by Segal.

Implicit Subsidy. An implicit subsidy exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees under age 65. While the liabilities for implicit subsidy have been included in the GASB 43 and 45 disclosure calculations, they have not been included in the phase-in rate calculations.

Investment Policy and Practices of the City

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code, the Charter, the City Municipal Code and the City Investment Policy (the "Policy"). The Policy was originally adopted by the City Council on April 2, 1985 (Resolution No. 58200) and is reviewed annually by the City Council. The Investment Policy was recertified by The Association of Public Treasurers of the United States and Canada ("Association") that the revised policy is a professionally accepted policy based on the standards developed by the Association.

On September 28, 2010 Council is scheduled to approve proposed updates to the Investment Policy. All proposed changes are consistent with the California Government Code.

The primary objectives of the Policy, in their order of priority, are to (1) provide for the safe preservation of principal, (2) ensure that there is sufficient liquidity for operating needs, and (3) attain the maximum yield possible as long as investment practices are consistent with the first two stated objectives.

Current Investment Portfolio

As of July 31, 2010, the book value of the City's pooled investment fund was $964,424,741 while the market value was $968,255,177. The composition of this fund, including the weighted average days to maturity and yield, is provided in Table 33. The General Fund portion of the pool was approximately 6.29% as of July 31, 2010.

With respect to potential loss of principal on any of the City's investments, the Policy limits the composition of the holdings within the Investment Portfolio. Those limitations include the ability to hold medium-term notes within the criteria enumerated in the Policy. The City's holdings as of July 31, 2010 included $29,919,250 medium term notes. These notes were purchased under the FDIC's Temporary Loan Guarantee Program which offers "full faith and credit of the US Government", and meets the criteria in the Policy. The Finance Department's investment staff continues to focus investment decisions in accordance with the Policy's primary investment objectives as described above in "Investment Policy and Practices of the City".

Table 33
CITY OF SAN JOSE POOLED INVESTMENT FUND
GENERAL POOL INVESTMENTS[4]
As of July 31, 2010

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity	Weighted Average Yield
U.S. Treasury Bills and Notes...	$ 0	0.0%	$ 0	0	0.000%
Federal Agency Securities[1]	737,719,581	76.5	741,531,197	180	1.774
Medium Term Notes (corp.)	29,919,250	3.1	29,919,250	467	2.859
Bankers Acceptance	0	0.0	0	0	0.000
Commercial Paper	56,785,910	5.9	56,804,730	39	0.290
Repurchase Agreements	0	0.0	0	0	0.000
Neg. Certificate of Deposit	0	0.0	0	0	0.000
Money Market Mutual Fund	40,000,000	4.1	40,000,000	1	0.055
State of California LAIF[2]	100,000,000	10.4	100,000,000	1	0.530
Total[3]	$ 964,424,741	100.0%	$ 968,255,177	154	1.520%

[1] Composed only of Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB) securities.
[2] Estimated based upon City's participation in the Local Agency Investment Fund (LAIF). Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.
[3] Totals may not add due to independent rounding.
[4] Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.
Source: City of San José, Finance Department.

Debt Management Policy

The City Council adopted a Debt Management Policy for the City on May 21, 2002 (Resolution #70977). The policy allocates responsibility for debt management activities to the Finance Department, describes the purposes for which debt may be issued, and establishes overall parameters for issuing and administering the City's debt.

Bonded and Other Indebtedness

The City may issue general obligation bonds for the acquisition and improvement of real property subject to the approval of the voters voting on the bond proposition. In accordance with all relevant provisions of law, the City is obligated to levy ad valorem taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property that is taxed at limited rates), for the payment of all outstanding general obligation bonds and the interest thereon. The City is obligated to direct the County of Santa Clara to collect such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the general obligation bonds (See "Major General Fund Revenue Sources – *Property Taxes and Assessed Valuations*" herein). As of June 30, 2010, the City has issued $589,590,000 in general obligation bonds; of that amount, $499,970,000 will be outstanding. The City anticipates that it will issue $9,230,000 in the spring of 2011, at which point, its general obligation bond authorization will be exhausted. Table 34 below summarizes the various voter authorizations for general obligation bonds.

Table 34
CITY OF SAN JOSE
GENERAL OBLIGATION BONDS
As of June 30, 2010

Date of Election	Projects	Amount Authorized	Amount Issued	Amount Authorized but Unissued
11/07/2000	San José Neighborhood Libraries Bonds	$ 211,790,000	$ 205,885,000	$ 5,905,000
11/07/2000	San José Neighborhood Parks and Recreation Bonds	228,030,000	228,030,000	0
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	159,000,000	155,675,000	3,325,000
Total		$ 598,820,000	$ 589,590,000	$ 9,230,000

Source: City of San José, Finance Department

The City may enter into long-term lease obligations without first obtaining voter approval. The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings or use equipment necessary for City operations. Securities have been issued which certificate these lease arrangements.

As of June 30, 2010, the City had approximately $844.4 million in non-voter approved bonded or certificated lease obligations outstanding. Table 35 on the following page summarizes the bonded and certificated General Fund lease obligations payable out of the revenues and general funds of the City as of June 30, 2010. The City has never failed to pay principal of or interest on any debt or any lease obligation when due.

Table 35
CITY OF SAN JOSE
BONDED AND CERTIFICATED GENERAL FUND LEASE OBLIGATIONS
As of June 30, 2010

Issuer/Issue	Issue Date	Project	Amount Issued	Amount Outstanding	Final Maturity
City of San José Financing Authority					
Lease Revenue Bonds, Series 1993B[1]	04/13/93	Community Facilities	$ 18,044,854	$ 2,243,039	11/15/12
Lease Revenue Bonds, Series 1997B	07/29/97	Child Care Facilities, Fire Apparatus, Library Land Refinancing	9,805,000	1,165,000	08/01/12
Lease Revenue Bonds, Series 2001F	07/26/01	Convention Center Refunding Project	186,150,000	145,895,000	09/01/22
Lease Revenue Bonds, Series 2002B	11/14/02	Civic Center	292,425,000	291,820,000	06/01/37
Lease Revenue Bonds, Series 2003A	09/18/03	Central Service Yard Refunding	22,625,000	17,465,000	10/15/23
Taxable and Tax-Exempt Lease Revenue Commercial Paper Notes[2]	01/13/04	Multiple Projects	116,000,000	53,530,000	N/A
Lease Revenue Bonds, Series 2006A	06/01/06	Civic Center Refunding	57,440,000	57,440,000	06/01/39
Lease Revenue Bonds, Series 2007A	06/28/07	Recreational Facilities Refunding	36,555,000	33,435,000	08/15/30
Lease Revenue Bonds, Series 2008A[3]	08/14/08	Civic Center Refunding Project	60,310,000	56,920,000	06/01/39
Lease Revenue Bonds, Series 2008B[3]	07/10/08	Civic Center Garage Refunding Project	36,580,000	35,280,000	06/01/39
Lease Revenue Bonds, Series 2008C[3]	06/26/08	Hayes Mansion Refunding Project	10,915,000	10,915,000	06/01/27
Taxable Lease Revenue Bonds, Series 2008D[3]	06/26/08	Hayes Mansion Refunding Project	47,390,000	45,080,000	06/01/25
Taxable Lease Revenue Bonds, Series 2008E[3]	07/03/08	Ice Center Refunding Project	28,070,000	26,025,000	06/01/25
Taxable Lease Revenue Bonds, Series 2008F[3]	06/11/08	Land Acquisition Refunding Project	67,195,000	67,195,000	06/01/34
			$ 1,008,114,854	$ 844,408,039	

(1) Includes Capital Appreciation Bonds at an accreted value as of June 30, 2010.
(2) Value presented as "Amount Issued" is the authorized amount.
(3) Variable rate bonds.
Source: City of San José, Finance Department.

In addition, the City and its departments have issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. Such bonds and certificates of participation are not secured by any City general funds or revenues.

Overlapping Bonded Debt

Contained within the City are overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc., as of June 30, 2010, is shown in Table 36. The City makes no representations as to the completeness or accuracy of such statement.

Table 36
CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/30/10
Santa Clara County	38.181%	$ 133,633,500
Santa Clara Valley Water District Zone W-1	46.114	419,637
Foothill-De Anza Community College District	4.576	21,931,820
Gavilan Joint Community College District	7.789	5,805,531
San José-Evergreen Community College District	86.997	209,227,835
West Valley Community College District	27.965	60,144,239
Milpitas Unified School District	0.0002	97
Morgan Hill Unified School District	18.876	12,339,060
San José Unified School District	97.772	510,191,881
Santa Clara Unified School District	4.085	10,910,422
Campbell Union High School District	61.253	83,546,029
East Side Union High School District	94.537	534,963,754
Fremont Union High School District	9.829	19,895,370
Los Gatos-Saratoga Joint Union High School District	0.644	379,413
Alum Rock Union School District	74.053	59,809,148
Berryessa Union School District	93.933	38,942,772
Cambrian School District	67.610	12,960,799
Campbell Union School District	48.926	48,056,754
Cupertino Union School District	16.476	20,968,167
Evergreen School District	99.446	121,154,264
Evergreen School District Community Facilities District No. 92-1	100.000	3,940,000
Franklin-McKinley School District	98.428	57,705,707
Los Gatos Union School District	1.440	1,230,408
Luther Burbank School District	20.956	1,859,585
Moreland School District	76.059	55,729,853
Mount Pleasant School District	87.545	7,380,036
Oak Grove School District	99.548	92,654,224
Orchard School District	100.000	46,038,315
Union School District	72.041	54,122,685
City of San José	**100.000**	**499,970,000**
City of San José Community Facilities Districts	100.000	34,180,000
City of San José Special Assessment Bonds	100.000	26,725,114
Santa Clara Valley Water District Benefit Assessment District	38.181	58,203,116
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$ 2,845,019,535

Table 36 (Cont'd.)
CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 6/30/10
Santa Clara County General Fund Obligations	38.181%	$ 315,019,977
Santa Clara County Pension Obligations	38.181	148,159,393
Santa Clara County Board of Education Certificates of Participation	38.181	5,184,980
Foothill-De Anza Community College District Certificates of Participation	4.576	1,073,072
San José-Evergreen Community College District Benefit Obligations	86.997	40,692,847
West Valley-Mission Community College District General Fund Obligations	27.965	15,693,958
Morgan Hill Unified School District Certificates of Participation	18.876	2,557,698
San José Unified School District Certificates of Participation	97.772	109,783,018
Santa Clara Unified School District Certificates of Participation	4.085	530,230
East Side Union High School District Benefit Obligations	94.537	30,076,947
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.644	65,720
Alum Rock Union School District Certificates of Participation	74.053	2,221,590
Franklin-McKinley School District Certificates of Participation	98.428	5,497,204
Luther Burbank School District General Fund Obligations	20.956	451,059
City of San José General Fund Obligations	**100.000**	**789,448,126**
Santa Clara County Vector Control District Certificates of Participation	38.181	1,513,877
Midpeninsula Regional Open Space Park District General Fund Obligations	0.016	18,206
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 1,467,987,905
Less: San José Convention Center Lease Revenue Bonds (100% self-supporting from tax increment revenues)[(1)]		145,895,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 1,322,092,905
GROSS COMBINED TOTAL DEBT[(2)]		$ 4,313,007,440
NET COMBINED TOTAL DEBT		$ 4,167,112,440
Ratios to 2009-10 Assessed Valuation:		
Direct Debt ($499,970,000)	**0.41%**	
Total Direct and Overlapping Tax and Assessment Debt	2.33%	
Ratios to Adjusted Assessed Valuation:		
Gross Combined Direct Debt ($1,289,418,126)	**1.25%**	
Net Combined Direct Debt ($1,143,523,126)	**1.11%**	
Gross Combined Total Debt	4.18%	
Net Combined Total Debt	4.04%	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10:		$ 0

(1) Supported from surplus tax increment revenues pursuant to a Reimbursement Agreement between the City and the Redevelopment Agency.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.
Source: California Municipal Statistics, Inc.